Regional Express

HEADWINDS AND TAILWINDS

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

REGIONAL EXPRESS HOLDINGS LIMITED

WHAT DOES IT PROFIT A COMPANY IF IT GAINS THE WHOLE WORLD AND LOSES ITS SOUL

COMPANY

Staff members are part of the Rex family. This comes with both privileges and responsibilities.

We expect every staff member to take ownership of issues encountered:

- Ownership means that if something is wrong then it is everyone's job to fix it.
- Matters that cannot be handled by the staff member ought to be pursued further with senior management.
- Staff have the right to make mistakes if they act in the best interest of the customer and the company.

We strive to be a learning organisation where we actively seek to identify issues no matter how small in order to continually transform ourselves to a better organisation:

- This entails a culture where issues are highlighted as learning experiences even though they may place our colleagues in a bad light.
- An excellent airline is one that is outstanding in a thousand small ways.

We believe that we can only count on ourselves for our continued success:

- All staff members must embrace the 'can do' and 'will do' spirit that has been the defining characteristic of our initial success.
- Hard work is the cornerstone of our work ethic.
- All staff share in the profits and so all staff are expected to contribute his/her fair share.

We value open communication and will strive to create an environment that removes barriers to communication:

- Staff members have a right to be heard regardless of their position.
- Staff members are encouraged to contact directly the members of the Management Committee and Board if they see the need.

We respect the dignity of each staff member and will treat each other with respect and fairness:

- The customer does not always come first and we will stand by our staff member if the customer is unreasonable.
- While we can be single-minded in tackling issues and problems, we will focus on the issue and not the person.
- We accept that staff members may have different talents and capabilities and will strive to fit the job to the person rather than the other way around.
- Important decisions concerning staff matters are always referred to the Management Committee to ensure transparency, fairness and consistency.

We are committed to standing behind our staff members and their families and will do all we can to help them in their times of special need:

- We believe in the value of the family and will strive to create a working environment that is sWupportive of the family.
- All staff members have the right to appeal to the Management Committee if special assistance or consideration is needed.

CUSTOMER

We are committed to providing our customers with safe and reliable air transportation with heartfelt hospitality.

As a regional carrier, we constantly strive to keep fares low through our commitment to simplicity, efficiency and good value.

We are committed to treating our customers as individuals and will respond to all their comments and complaints.

COMMUNITY

Rex is mindful of the tremendous social and economic impact its services have on the regional communities and works in partnership with these communities to balance their needs against Rex commercial imperatives.

We are also committed to giving back to the regional communities by supporting worthwhile charitable causes which are focused on helping the less fortunate.

We are committed to preserving the environment to the measure of our capabilities.

CONTRACTORS

We believe that our suppliers are partners in our business.

In all our dealings with suppliers we will seek to be fair and honest and will strive to work only with like-minded suppliers.

CAPITAL

Rex believes that its shareholders' interest is best served by pursuing a path of steady but sustainable growth of its earnings.

We believe that maximizing shareholders' returns in the long term is not incompatible with our duties and responsibilities towards our other stakeholders outlined above.

HEADWINDS AND TAILWINDS

LIM KIM HAI

EXECUTIVE CHAIRMAN

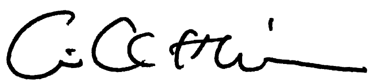
This past Financial Year (FY) has once again been very challenging. Rex's traditional Regular Public Transport (RPT) passenger revenue did not reach the bottom as expected and showed a slight decline of 0.74%. The end of the Defence target towing contract since October of 2015 also dragged down the Group's performance. The end of the Defence contract also prompted us to aggressively write down the Learjets and WestWind values along with goodwill recorded when Pel-Air was first acquired as a precautionary measure. Although Rex remains operationally profitable, the write down meant that the Group recorded its first statutory loss in 13 years of $9.6M.

However, even as we faced strong headwinds, Rex continued to scale new heights. Following the FY 15 feat of commencing RPT services to 16 new Queensland ports after winning the Queensland Government regulated route tender, Rex has once again in FY 16 won another state government regulated route tender, this time in Western Australia (WA). With the start of the Perth/Albany and Perth/Esperance routes on 28 February 2016, Rex can now be considered a truly pan-Australia regional airline with operations servicing 58 ports spanning all states of Australia.

The FY ahead is again fraught with uncertainties both internationally and within Australia, however Rex sees several favourable tailwinds too. The new WA routes started well and are achieving all of our targets. These two routes, awarded under exclusive rights, contribute about 10% to our overall passenger numbers and will help us achieve improved operating efficiencies and profitability. With its presence in WA fully entrenched, Rex intends to further expand its services in WA wherever commercially viable.

Besides the WA contributions, we see several other significant tailwinds as well. Our fuel requirements for FY 17 are 75% hedged and our fuel bill for the full FY is estimated to achieve a $6.5M annual saving compared to FY 16. Also, our Australian Airline Pilot Academy (AAPA) has been approved by the Civil Aviation Authority of Vietnam at the end of FY 16 and we have already enrolled a steady stream of Vietnamese students. Finally, the Pel-Air medivac division has completed a trial deployment in Singapore over several months in FY 16 and the results have been positive. Consequently, a detachment will be permanently based in Singapore for the full FY 17 and we expect to grow this activity in the ASEAN region. This will make up most of the ground lost by the completion of the Defence contract.

The net outcome should see the Rex Group stronger at the end of FY 17 than when we started. I would like to thank all shareholders for their long suffering patience as we went through five years of very difficult conditions, as well as management and staff for their extraordinary dedication and steadfastness.



Lim Kim Hai
Executive Chairman
24 August 2016

CORPORATE INFORMATION

This annual report covers both Regional Express Holdings Limited as an individual entity and the consolidated entity comprising Regional Express Holdings Limited and its subsidiaries.

The Group's functional and presentation currency is AUD ($).

DIRECTORS
Lim Kim Hai
The Hon. John Sharp
Lee Thian Soo
Neville Howell
Chris Hine
James Davis
Ronald Bartsch
Garry Filmer

COMPANY SECRETARIES
Irwin Tan
Benjamin Ng

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SOLICITOR
Baker & McKenzie
Level 27, AMP Centre
50 Bridge Street
Sydney, NSW 2000

BANKER
Westpac Banking Corporation

AUDITOR
Deloitte Touche Tohmatsu

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Directors' Report

1/ BOARD OF DIRECTORS

In compliance with the provisions of the Corporations Act 2001, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the Financial Year ended 30 June 2016 (FY 16).

The names and particulars of the directors of Rex during or since the end of the FY are:

LIM KIM HAI

Executive Chairman

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.

Mr. Lim started his career as a Defence Engineer specialising in underwater warfare. After 10 years he left to start his own business. Currently he has a portfolio of investment and business interests in diverse sectors and countries. He is also the Chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd.

Mr. Lim obtained his Masters in Electronics Engineering from the prestigious 'Grande Ecoles' engineering colleges in France where he was sent on a French Government scholarship. He later returned to France to complete a Masters of Public Administration at the elite Ecole Nationale d'Administration in Paris on a Singapore Government scholarship. Mr. Lim also has a Masters of Business Administration from the National University of Singapore.

Mr. Lim was one of the founding shareholders and directors of Rex in August 2002. He has been the Executive Chairman of the Rex Group of companies since July 2003.

THE HON. JOHN SHARP

Deputy Chairman and Independent Director

Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011 and 27 November 2013.

The Honourable John Sharp is an aviator, having been a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). He retired from the House of Representatives in 1998 and established his own high level aviation and transport consulting company. Mr. Sharp is a former Chairman of the Aviation Safety Foundation of Australia. In 2001, he became a director of Airbus Group, Australia Pacific, a position he retired from in June 2015. He has retired as Chairman of the Parsons Brinkerhoff Advisory Board, an engineering and design company operating throughout Australia and the region. He is also Chairman of Power and Data Corporation Pty Limited and Chairman of Pel-Air Aviation Pty Ltd. Mr. Sharp is a Trustee and Board Member of John McKeown House, Honorary Federal Treasurer, National Party of Australia and has retired as Chairman of Winifred West Schools Foundation. He has been a member of the University of Wollongong Vice Chancellor's Advisory Board. He is also currently a director of the Tudor House Foundation. He was appointed a director of the Flight Safety Foundation following his receipt of the Foundation's Presidential Citation for Aviation Safety, the first Australian to receive this award. He has also been a director of the French, Australian Chamber of Commerce and Industry, and Co-Chair of the Cancer Council of NSW Southern Highlands Branch. He is currently a director of the Climate Change Authority. Mr. Sharp's extensive experience in aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

LEE THIAN SOO

Non-Executive Director

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.

Mr. Lee has extensive international business experience and currently is the Chairman and owner of a company supplying specialty medical devices, systems and drugs to healthcare institutions in the ASEAN region. He is also on the board of a biomedical company and a mobile/internet gaming company.

Mr. Lee was one of the founding shareholders and directors of Rex in August 2002.

NEVILLE HOWELL

Chief Operating Officer

Appointed 1 July 2014 as Executive Director and re-appointed 26 November 2014.

Mr. Howell has over 35 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 as a First Officer and Captain for over 18 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (GMFO) and Chief Pilot, Mr. Howell was Manager Training & Checking and Deputy Chief Pilot. He is an extensively qualified and experienced simulator and aircraft instructor and has held positions as both Training and Check Captain. Mr. Howell was the Chief Flying Instructor and Chief Pilot for the first integrated pilot training academy in Australia and has provided cadet pilot training for both domestic and international carriers. He is a qualified lecturer in a number of aviation subjects and has a Diploma of Aviation. He holds a number of Civil Aviation Safety Authority (CASA) delegations and has done since 1984. As GMFO Mr. Howell was responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Mr. Howell became Chief Operating Officer in July 2014. As Chief Operating Officer he is responsible for Regional Express operations including flight operations, continuing airworthiness, maintenance control, airport operations and the human factors group. Mr. Howell is the accountable manager for the Regional Express Air Operator Certificate (AOC) and also holds the CASA approval as Alternate Chief Pilot.

CHRIS HINE

Group Flight Operations Advisor
Chairman, Australian Airline Pilot Academy

Appointed 1 March 2011 as Executive Director and re-appointed 23 November 2011. Appointed 1 July 2014 as Non-Executive Director and re-appointed 26 November 2014. Appointed Executive Director and Group Flight Operations Advisor 18 May 2015.

Mr. Hine has over 25 years of aviation experience including 15 years as a First Officer and Captain of Metroliner and Saab 340 aircraft and is a well-accomplished and knowledgeable instructor. He has been with the Company since its inception in August 2002 and is the Group Flight Operations Advisor, Chairman's Office and Chairman of the Australian Airline Pilot Academy. Prior to his current role he was the Chief Operating Officer and General Manager Flight Operations and Chief Pilot. Prior to Rex he worked for Kendell Airlines from 1995, during which time he held various Check and Training Captain positions. As Chief Operating Officer he was responsible for the Company's operations including flight operations, maintenance control, airport operations and the human factors group. Mr. Hine has also had experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia.

JAMES DAVIS

Independent Director

Appointed 26 August 2004 as Executive Director. Appointed 23 November 2011 as an Independent Director and re-appointed 26 November 2014. Appointed Managing Director on 27 May 2008 and retired 1 July 2011.

Mr. Davis has a degree in Aeronautical Engineering and commenced his aviation career with the Civil Aviation Safety Authority (CASA) before obtaining his Air Transport Pilot Licence. He subsequently flew with airlines in Australia and overseas for 26 years, accumulating some 12,500 flying hours. He joined Hazelton Airlines in 1999 as Flight Operations and Standards Manager and later became Chief Pilot. He has been with Rex since its beginning in 2002, occupying the positions of Executive General Manager Operations, Managing Director Operations, Chief of Staff of the Chairman's Office and Managing Director. Mr. Davis is a former Chairman of the Australian Airline Pilot Academy Pty Ltd (AAPA) and a former Director of Rex Group companies Pel-Air Aviation Pty Ltd and Air Link Pty Ltd. He is currently Chairman of the Regional Aviation Association of Australia (RAAA).

RONALD BARTSCH

Independent Director

Appointed 23 November 2010 and re-appointed 23 November 2011 and 26 November 2014.

Mr. Bartsch has over 35 years experience in the aviation industry in a variety of senior operational, safety and regulatory roles. He was head of safety and regulatory compliance for Qantas Airways Limited's AOC and manager of the CASA Sydney Airline Transport Field Office.

In addition, Mr. Bartsch is an experienced pilot and has extensive legal and regulatory experience. Mr. Bartsch has formal qualifications in law, education and science, and is the author of the definitive legal textbook on aviation law. Mr. Bartsch is an international aviation safety consultant and senior visiting fellow with the Department of Aviation at the University of New South Wales. He is an aviation specialist member of the Administrative Appeals Tribunal and author of several publications including Aviation Law in Australia and International Aviation Law.

GARRY FILMER

Alternate Director to Chris Hine until 12 January 2016, Group Engineering Training Manager and Engineering Advisor

Appointed 1 March 2012 as Executive Director and re-appointed 27 November 2012. He was appointed Alternate Director to Mr. Chris Hine on 30 June 2014 and stepped down as Alternate Director on 12 January 2016. He was appointed Group Engineering Training and Engineering Advisor on 15 January 2016.

Mr. Filmer is a Licensed Aircraft Maintenance Engineer with over 36 years experience and has been involved in Regional Airline and Maintenance Repair Organisation management over the last 20 years, holding positions such as Engineering Manager and General Manager Engineering. He joined Rex in 2007 as Engineering Advisor in the Chairman's Office and as a member of the Engineering Management Committee was involved in the coordination of projects such as the management of Ground Support Equipment, review of engineering resources and the recruitment of staff. He became General Manager Engineering in June 2008 and then Chief Operating Officer in March 2012. He retired from the position of Chief Operating Officer with effect from 1 July 2014. As Chief Operating Officer Mr. Filmer was responsible for Regional Express operations including flight operations, continuing airworthiness, maintenance control, airport operations and the human factors group.

2/ SENIOR MANAGEMENT EXECUTIVES

The names and particulars of the senior management executives of Rex during or since the end of the FY are:

NEVILLE HOWELL

Chief Operating Officer

Neville is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 7.

WARRICK LODGE

General Manager, Network Strategy & Sales

Warrick manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysis of both existing and new market opportunities. Warrick has more than 24 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Warrick has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

IRWIN TAN

General Manager, Corporate Services

Irwin's background was originally in genetic research after graduating with first class honours in biotechnology from the University of New South Wales in Sydney. Irwin left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of Regional Marketing Manager in South West Pacific in 2003. Irwin joined Rex in July 2005 and was appointed the Company Secretary on 7 September 2005. Irwin is also a member of the Rex Management Committee.

MAYOORAN THANABALASINGAM

General Manager, Information Technology and Communications

Mayooran leads a team of Information Technology (IT) professionals responsible for ensuring day-to-day operations of the airline. With over 15 years experience and an extensive background in information technology, he has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine, Web Check-in and numerous Mobile/iPad applications. Mayooran has a Master of Business Administration (Computing) from Charles Sturt University. He also has a Graduate Certificate in Management (Information Technology) as well as an Associate Diploma of Electrical Engineering / Computer Engineering. He commenced with Rex in April 2004. Mayooran is a member of the Rex Management Committee and a Director of the Australian Airline Pilot Academy (AAPA).

DALE HALL

General Manager, Engineering until 8 January 2016

Dale has over 32 years of aviation engineering experience. He began his career as an apprentice in the Royal Australian Air Force where he served for nine years. He then spent the next 17 years in the industry working in turbine engine and component overhaul facilities, on and offshore gas and petroleum helicopter industries and maintaining aero-medical charter aircraft. Dale joined Kendell Airlines in 1999 as a Licensed Aircraft Maintenance Engineer and held the position of a Technical Support Engineer with both Kendell and Rex. In late 2006 Dale was appointed as a Maintenance Controller for Rex and took up the position of Maintenance Control Manager in 2007. In March 2012, he was appointed GM Engineering and Chairman of the Australian Airline Pilot Academy (AAPA). As GM Engineering, he became Part 145 Accountable Manager for both Rex and Air Link Approved Maintenance Organisations (AMOs) in June 2013. He was a member of the Rex Management Committee. Dale ceased employment with the Rex Group on 8 January 2016.

PNG YEOW TAT

General Manager, Engineering from 1 January 2016

Tat was previously employed as Deputy General Manager, Engineering.

Tat has been in aviation engineering for more than 35 years and has many years of experience in various senior management positions. He graduated with an Honours Degree in Electrical and Electronic Engineering from the UK. Tat joined Rex in June 2007 as the Logistics Advisor and subsequently as the Engineering Advisor in the Chairman's Office. He became the Deputy General Manager and Part 145 Alternate Accountable Manager for both Rex and Air Link Approved Maintenance Organisations (AMOs) in June 2013. He is a member of the Rex Engineering Management Committee and a member of the Rex Management Committee.

MARK BURGESS

Deputy General Manager, Engineering from 1 April 2016

Mark is a Licensed Aircraft Maintenance Engineer with over 30 years' experience and has been with the Company since its inception in 2002.

His career began as an apprentice in the British Armed Forces where he maintained helicopters for 12 years and left as a Senior Rank. He continued his career in the oil and gas industry with CHC Helicopters and also British Midland Regional Prop and Jet RPT services. He migrated to Australia in 2001 to work for Kendell Airlines in Wagga Wagga and became Production Leader co-ordinating maintenance and manpower on heavy checks for Saab 340 aircraft. In 2008 he moved to Adelaide as the Line Maintenance Supervisor and oversaw expansion of Rex maintenance activities from line to heavy maintenance. He is a member of the Rex Engineering Management Committee.

PAUL FISHER

General Manager, Flight Operations and Chief Pilot

Paul has over 26 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 as a First Officer and Captain for over 14 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (GMFO) and Chief Pilot, Paul served in various roles within the Training and Checking department along with being the Adelaide Flight Operations Manager, Flight Standards Manager and the Training & Checking Manager / Deputy Chief Pilot. He holds a number of Civil Aviation Safety Authority (CASA) delegations. As GMFO he is responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations.

03/ DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2016 served as a director with any other company listed on the ASX.

04/ DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares and options of Rex as at the date of this report. No debentures or rights exist.

Directors	Fully paid ordinary shares direct interest	Fully paid ordinary shares indirect interest	Share options
Lim Kim Hai	18,898,346	5,755,513	-
The Hon. John Sharp	50,000	150,000	-
Lee Thian Soo	7,722,181	3,727,181	-
Neville Howell	25,857	-	-
Chris Hine	176, 628	-	-
James Davis	200,866	-	-
Ronald Bartsch	-	-	-
Garry Filmer	23,038	-	-

05/ DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the FY and the number of meetings attended by each director (while they were a director or committee member). During the FY, 4 Board meetings, 3 Remunerations, Nominations and Disciplinary Committee meetings, 2 Audit and Corporate Governance Committee meetings and 4 Safety and Risk Management Committee meetings were held.

Directors	Board	Remunerations, Nominations and Disciplinary Committee	Audit & Corporate Governance Committee	Safety & Risk Management Committee
No. of Meetings Held:	4	3	2	4
Attendance:				
Lim Kim Hai	4	-	-	-
The Hon. John Sharp	4	3	2	-
Lee Thian Soo	3	-	2	-
Neville Howell	4	-	-	-
Chris Hine	4	-	-	-
James Davis	4	3	-	4
Ronald Bartsch	4	-	-	4
Garry Filmer	-	-	-	-

06/ REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 22 to 25.

07/ SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted or exercised in FY 16.

08/ FORMER PARTNERS OF THE AUDIT FIRM

No directors or officers in Rex or the Group have been a partner or director of Deloitte Touche Tohmatsu, the Group's auditor.

09/ COMPANY SECRETARIES

Mr. Irwin Tan holds the position of Rex Company Secretary. A description of his qualifications, skills and experience is included on page 9.

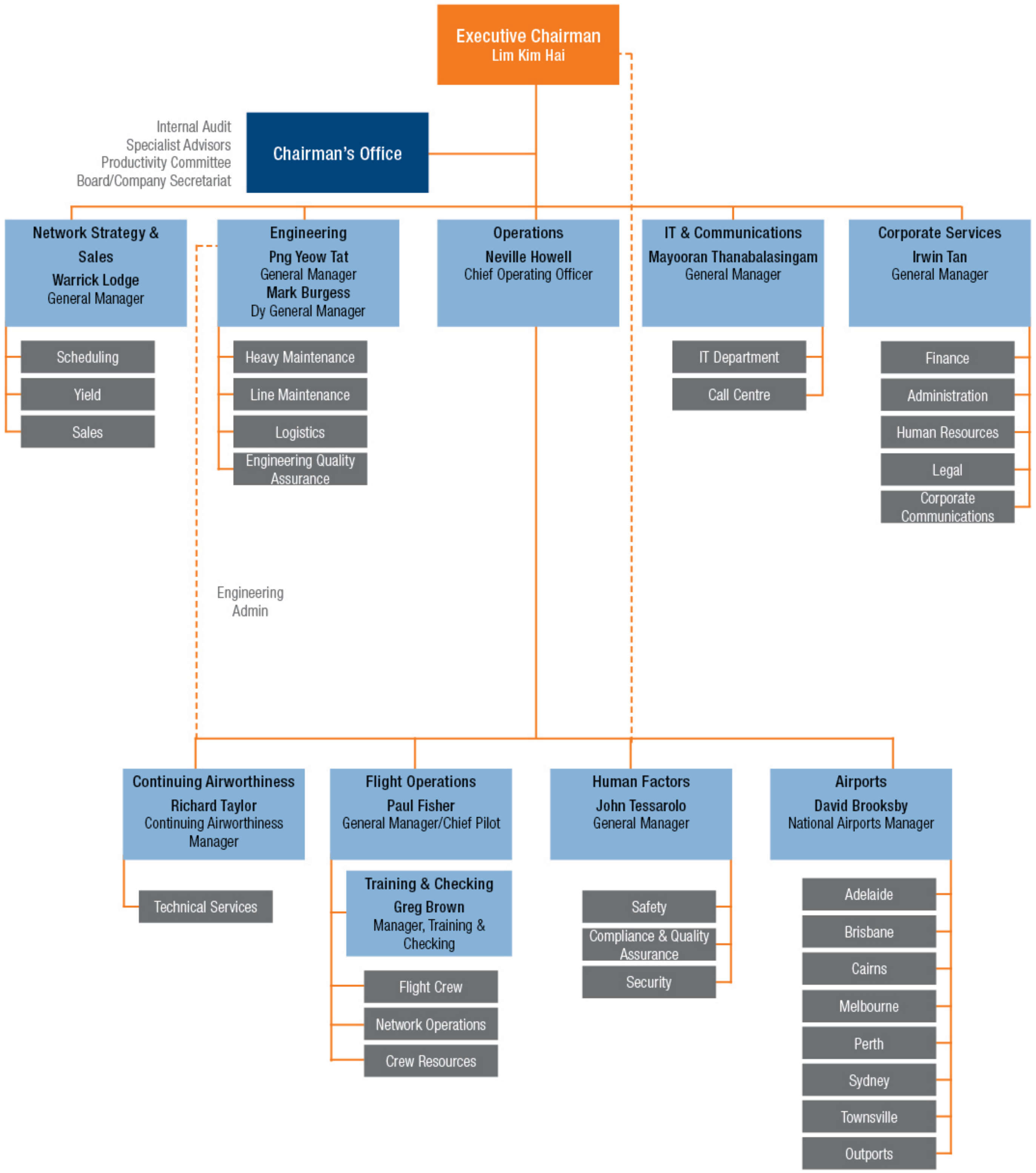
Mr. Benjamin Ng, having completed his Bachelor of Science followed by an MBA in the UK, started his career with the German multi-national chemical company, Henkel in Malaysia. In his eight years with Henkel/Cognis, he held various positions ranging from sales, marketing, business analysis and cost controlling. In 2001, he was posted to headquarters in Germany for just over a year where he was cost controller for the Asia Pacific Region. Upon his return to Malaysia, he headed up the controlling department of Cognis for three years. Benjamin joined Rex in April 2006 and was appointed Company Secretary on 10 October 2007.

10/ PRINCIPAL ACTIVITIES

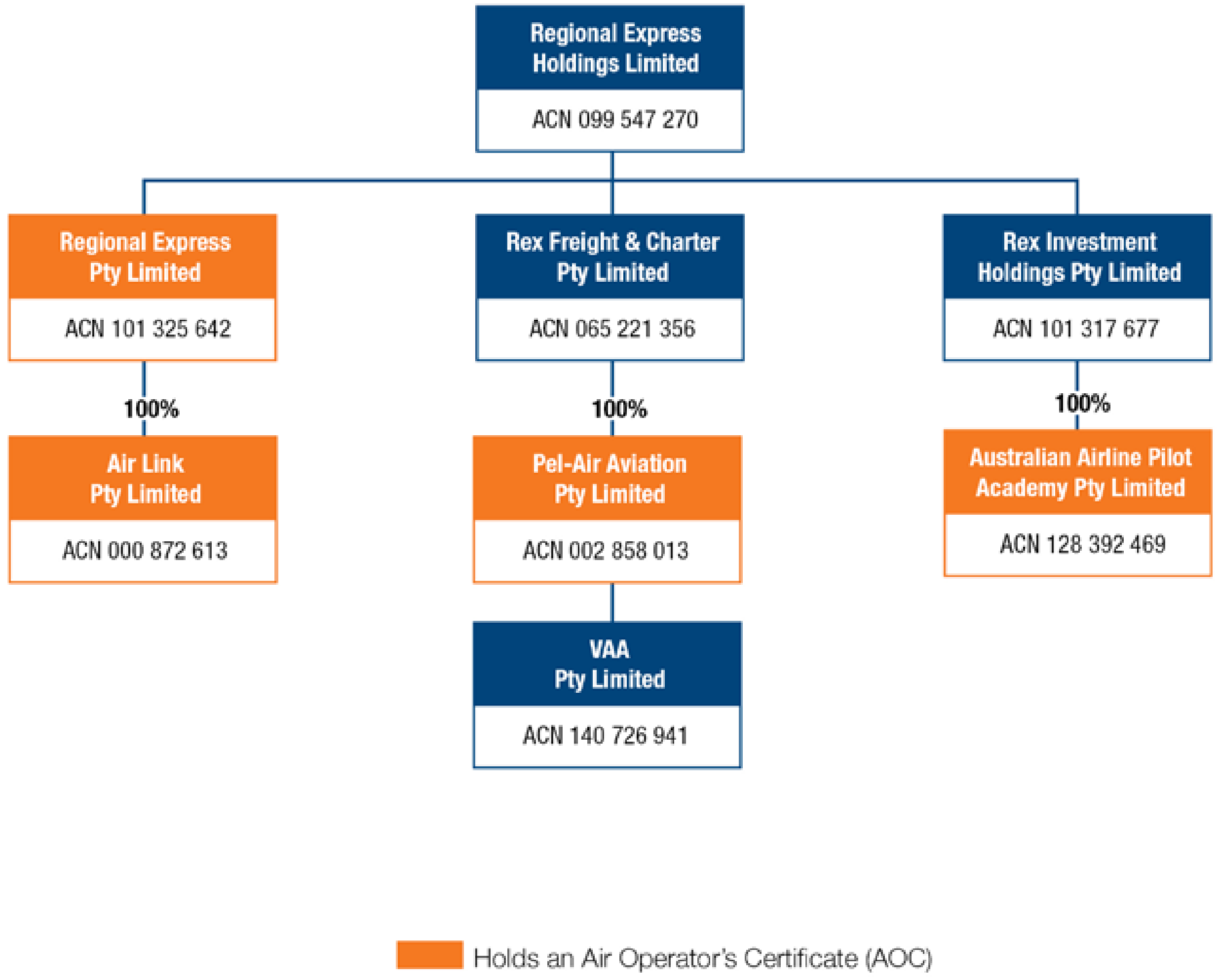
The Group's principal activity during the FY was air transportation of passengers and freight.

11/ ORGANISATION & GROUP STRUCTURES

REGIONAL EXPRESS AIRLINE ORGANISATION STRUCTURE



REGIONAL EXPRESS GROUP HOLDINGS STRUCTURE



12/ REVIEW OF OPERATIONS

SUMMARY

At the commencement of FY 16 the Rex RPT network serviced 53 airports throughout South Australia, Victoria, Tasmania, New South Wales and Queensland. This came on the back of significant expansion throughout Queensland during FY 15 which saw the number of airports serviced by Rex increase by 47% from 36 to 53 airports. At the close of FY 16, the Rex Group was servicing 58 airports as a result of NSW expansion and new operations within the state of Western Australia (WA).

In early December 2015 the Western Australian (WA) Government announced that Rex had been selected to provide essential regional air services between Perth and the communities of Albany and Esperance. The contract awarded Rex the sole right to operate these routes for the next five years commencing 28 February 2016. Rex procured an additional three aircraft for this purpose, increasing the Group's Saab 340 fleet to 55. The WA operation has a dedicated crew and engineering base in Perth.

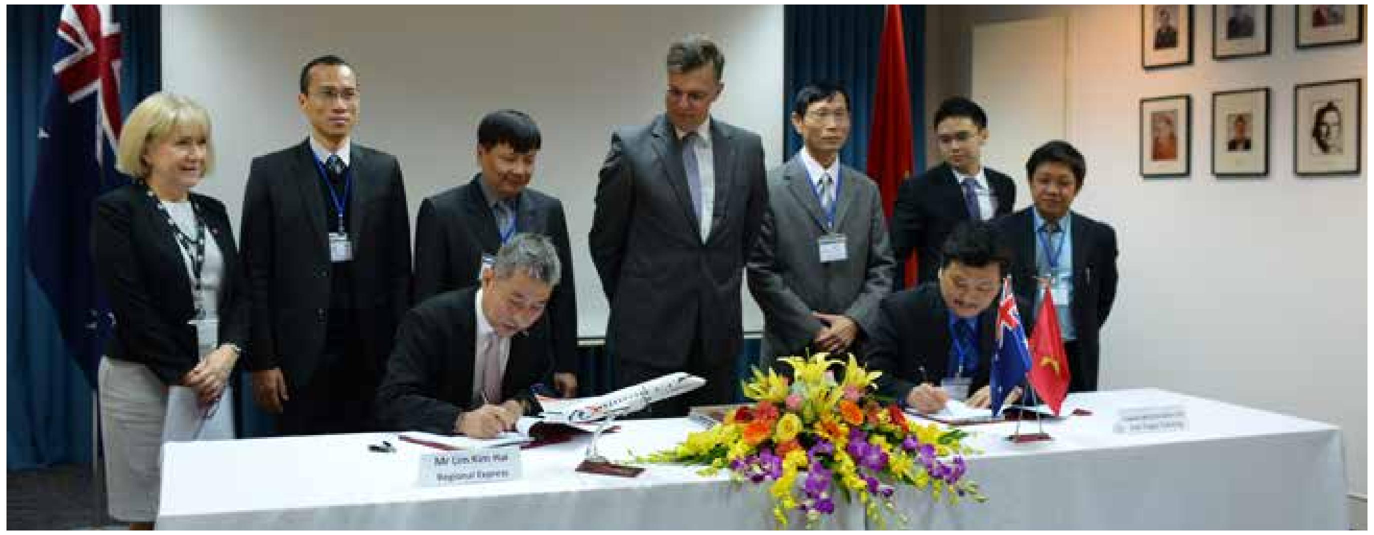
In FY 16 partnership agreements were either renewed or entered into with the regional councils that own and operate the following regional airports: Albany, Armidale, Bamaga (NPA), Bathurst, Broken Hill, Ballina, Ceduna, Coober Pedy, Esperance, Grafton, Lismore, Mildura, Moruya, Narrandera, Newcastle, Parkes, Snowy Mountains, Taree, Whyalla and Wagga Wagga.

There were no partnership agreements during the FY with the following regional airports: Albury, Burnie, Dubbo, Griffith, Kangaroo Island, King Island, Merimbula, Mount Gambier, Orange or any of the regional airports associated with the Queensland regulated routes.

The Rex pilot cadet programme (Australian Airline Pilot Academy; AAPA) continued to supply First Officers (FO) to meet demand within the Rex Group. FY 16 saw an additional 14 cadets inducted as FOs, taking the number of former cadets flying in the Group to 137, of which 30 have already reached the rank of Captain. The maturity of the cadet programme was further proven when for the first time ever we saw four former cadets successfully reaching the rank of Training Captain.

The Saab 340 Full Flight Simulator (FFS) located at AAPA continued to perform well and has proven to be a reliable training device. The FFS is now fitted with the new avionics plug-and-play LCD cockpit displays as fitted to our Saab 340 fleet. The FFS proved to be an invaluable platform for the testing of the LCD cockpit displays and will continue to further enhance pilot training and safety. The Civil Aviation Safety Authority (CASA) has renewed the Flight Simulator Qualification Certificate until April 2017.

On 16 December 2015, the Australian Airline Pilot Academy (AAPA) entered into a pilot training agreement with Vietnam based, Viet Flight Training (VFT) to train cadet pilots destined for Vietnam Airlines. On 1 February 2016 AAPA received official accreditation as an Approved Flight Training Organisation by the Civil Aviation Authority of Vietnam (CAAV) and on 29 February 2016 became an Approved Supplier to Vietnam Airlines. The first intake of Vietnam Airlines cadets from VFT commenced training on 4 April 2016 with a second intake following on 4 July 2016. These cadets will integrate into Vietnam Airlines after their graduation from AAPA.



Signing of the pilot training agreement between AAPA and VFT by Rex Executive Chairman Lim Kim Hai and CEO of VFT Captain Nguyen Nam Lien, with Ambassador of Australia to Vietnam HE Hugh Borrowman (centre) and Mr Do Quang Viet, Deputy Director General of CAAV (to Ambassador's left).

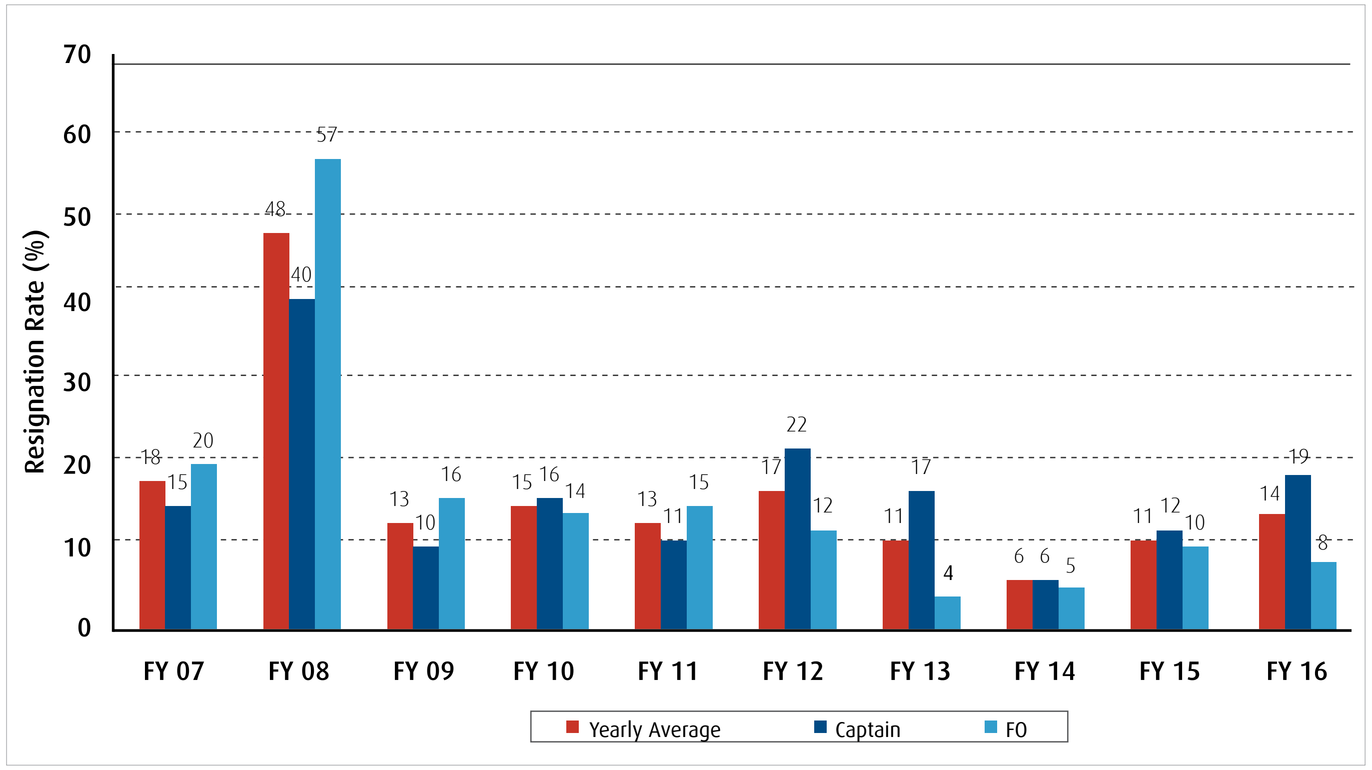
MATERIAL RISK AND RISK MANAGEMENT

The Company recognises that it has a responsibility to conduct its activities in an environmentally and socially responsible manner. The Group's Environmental Management Program available on the Rex website details the Environmental Management Program (EMP), incorporating the Group's environmental policy, targets, prevention of pollution, management strategies to mitigate the risk of environmental impact and continuous environmental improvement (ASX Recommendation 7.4).

Like all Australian airlines, the Company is subject to economic risks. The Company identifies the following risks that could adversely affect the entity's prospects for future FYs (ASX Recommendation 7.1):

- Fuel price increases – The Company has mitigated against this risk by hedging the majority of FY 17's fuel requirement. In December 2015 and January 2016, the Rex Group took advantage of the fall in Brent Crude price and hedged its fuel requirement for the first three quarters of FY 17. The fuel hedge is expected to deliver fuel cost savings of approximately $4.7M compared to FY 16's fuel bill.
- Foreign exchange rates – The Group's financial risk is essentially its exposure to US dollars (USD) and hence its main objective is to minimise the impact of USD fluctuation on its operations. With significant purchases in spares in prior years, the Group's exposure to USD expenditure is reduced. The Group will continue to monitor the exchange rate closely and will hedge whenever the rates are favourable.

The Company is also aware of the potential risk of the loss of pilots. In FY 08 the aviation world was hit with a worldwide pilot shortage that resulted in Rex's pilot ranks being decimated, losing 50% (annualised) of its pilots in the fiscal year ending June 2008. In response, the Company began its own pilot cadet training programme which has been operating successfully for nine years from its pilot training academy AAPA in Wagga Wagga NSW. The success of the cadet pilot programme is clearly demonstrated in the steady and low attrition rates over the past seven FYs.



Pilot attrition for the past 10 years.

ROUTE NETWORK DEVELOPMENTS

In July 2015 Rex commenced three return flights each week day between Cairns and Townsville, adding some 60,000 annual seats to the route with 34 weekly flights. This followed heavy solicitation by the Townsville and Cairns business community post Virgin Australia's exit in January 2014 and a market sounding exercise to gauge business community support for Rex services.

In August 2015 Rex announced that Rex subsidiary Air Link would commence RPT services between Sydney and Cobar via Dubbo with effect from Monday 31 August 2015 and operated by Air Link's Beech 1900D aircraft. Cobar had been without an RPT service since mid December 2013 when the prior operator Brindabella Airlines was placed into receivership.

In November 2015 Rex announced that in partnership with Snowy Mountains Airport Corporation Pty Ltd, Rex would commence regular services between Sydney and the Snowy Mountains (Cooma) in March 2016. The core schedule comprises of five return services per week, with additional services on Fridays, Saturdays, Sundays and Mondays operating throughout the ski season. The Snowy Mountains region had been without regular air services since mid December 2013, which was also linked with the collapse of Brindabella Airlines.

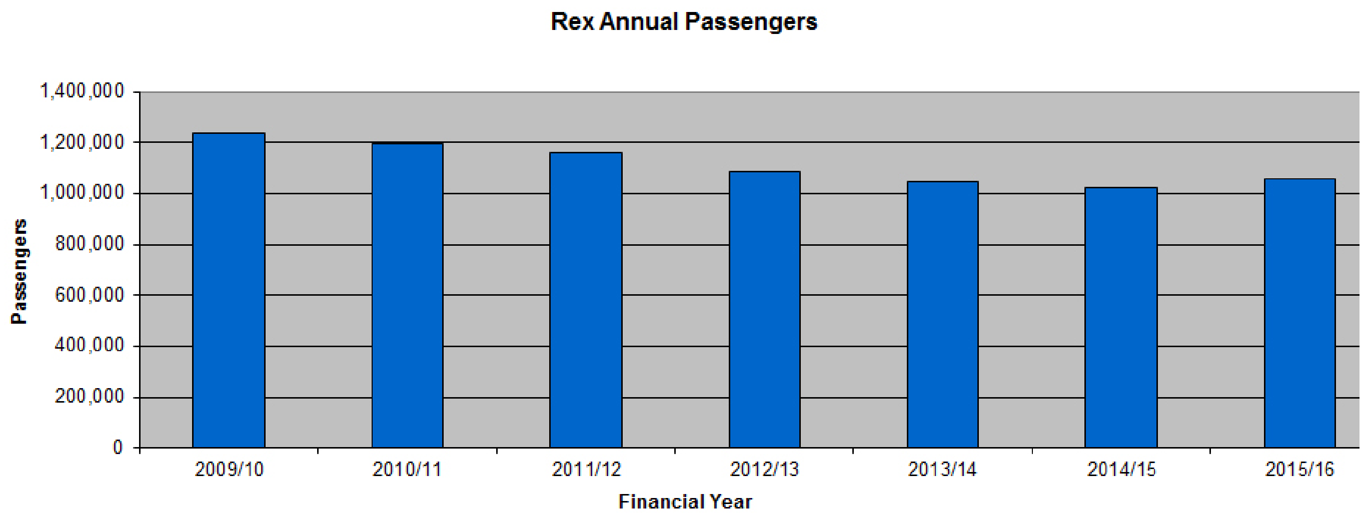
Snowy Mountains (Cooma) services launch on 23 March 2016.
(L – R): Rex Deputy Chairman the Hon. John Sharp, Member for Monaro the Hon. John Barilaro MP, and Snowy Mountains Airport Corporation Chairman Kevin Blyton.
Photo courtesy of Steve Cuff.

On 7 December 2015, the Western Australian (WA) Government, after a formal tendering process, signed a Deed of Agreement with Rex as the successful operator of two regulated routes in the state. This conferred on Rex the sole right to operate on the Perth/Albany and Perth/Esperance routes for a five year term beginning on 28 February 2016.

A traditional water cannon salute welcomes the first Rex service into Albany.
Photo courtesy of the City of Albany.

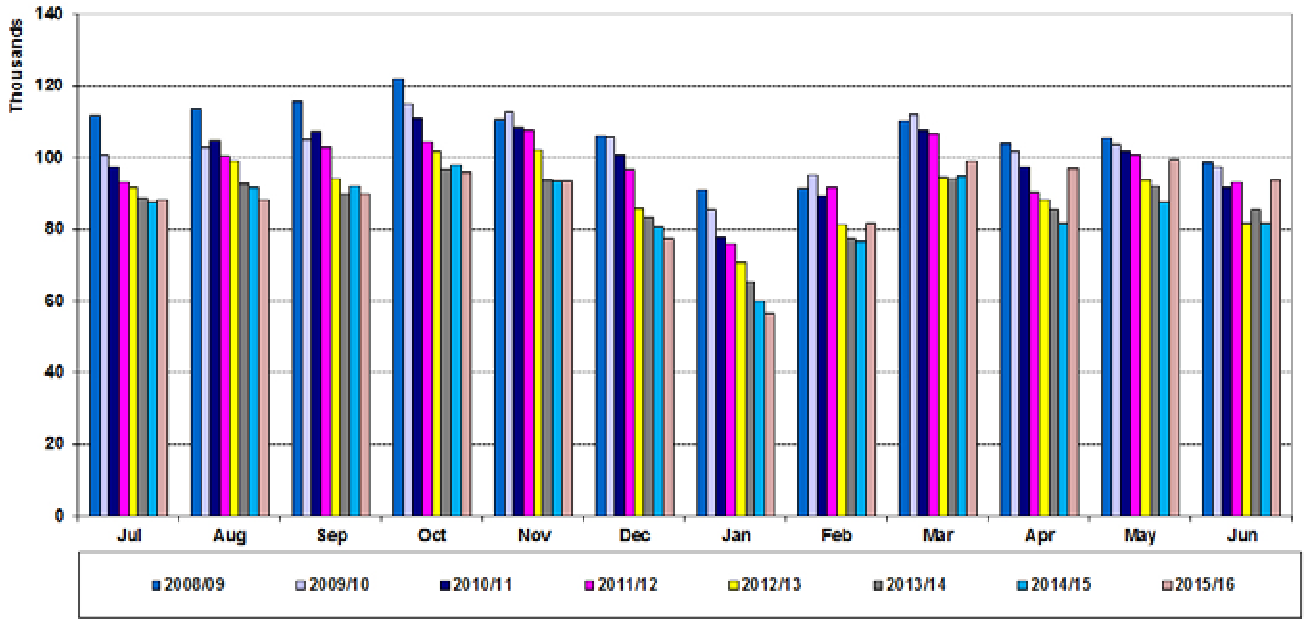
The commencement of these services on 28 February 2016 was very significant to Rex for two reasons. First of all, this marked Rex's entry into the WA market for the first time, thereby establishing Rex's presence in all states of the nation.

Secondly, the new WA routes contribute about 10% to Rex's passenger numbers and reverse a five-year decline of passenger numbers which peaked in FY 10.

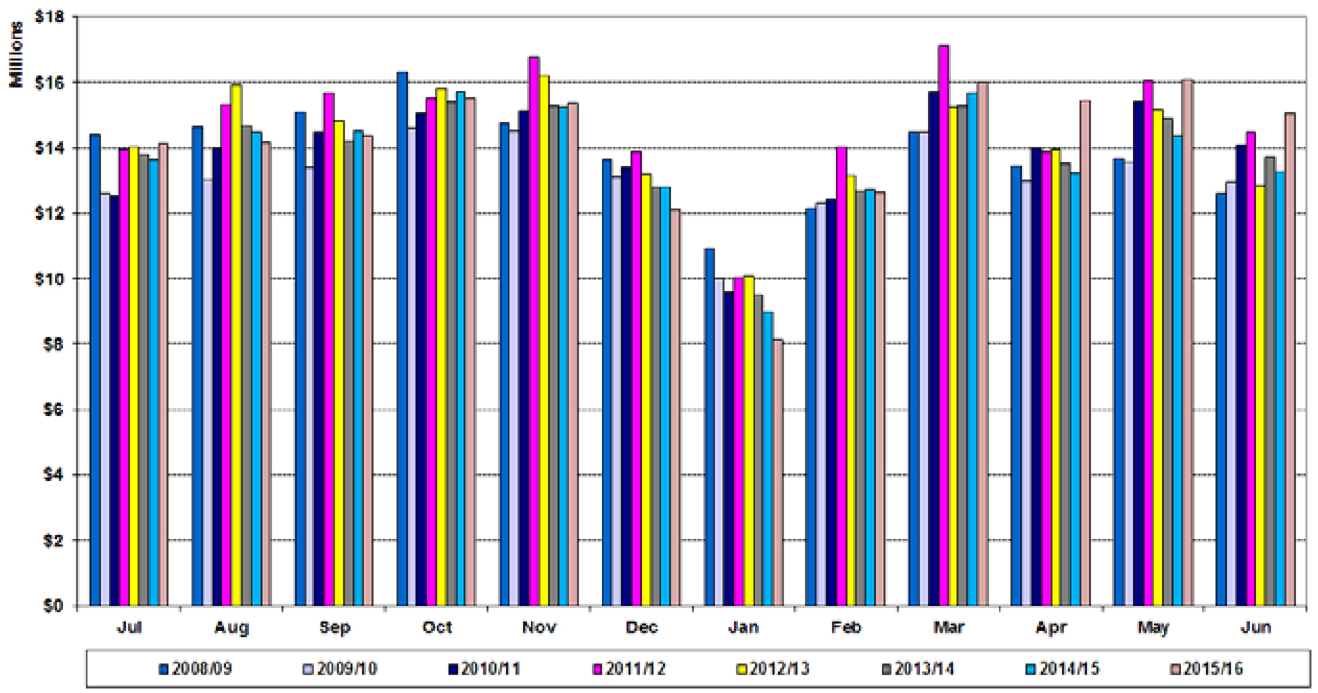


The graphs below set out the evolution in monthly passenger carriage and monthly passenger revenue over the last eight FYs. The strong performance from March 2016 onwards is due to the start of the WA operations.

Rex Monthly Passengers - Total Network



Rex Monthly Revenue - Total Network



FLEET CHANGES

During the reporting period, Rex added three Saab 340 aircraft to its fleet to cater for its Western Australian operations. Two of these were leased and one was paid for in cash. Of the 55 Saab 340 aircraft in the Rex Group 38 of them are fully paid for, 15 are on mortgage with about three years left to run and two are on lease.

ENTERPRISE AGREEMENTS (EA)

The Rex Flight Attendant Enterprise Agreement (EA) was ratified in December 2014 and the Airline Services Collective Agreement was ratified in October 2015. Agreements with the Australian Federation of Air Pilots (AFAP) and the Australian Licenced Aircraft Engineers Association (ALAEA) were also reached in FY 16 and were subsequently ratified in early FY 17.

OPERATIONAL AND SERVICE STANDARDS

In FY 16 Rex continued to deliver industry-leading on-time performance and service reliability. As reported by the Bureau of Infrastructure, Transport and Regional Economics (BITRE), Rex recorded 88.52% on-time departure performance which ranked Rex as the top performing regional airline.

In addition, Rex completed FY 16 with a low cancellation rate of 0.50%, the lowest cancellation rate of all Australian airlines, with the other main regional carriers QantasLink and Virgin Australia Regional Airlines coming in 500% and 400% higher respectively.

	On-Time Departure		Cancellation Rate (%)	
Airline	FY 2016	FY 2015	FY 2016	FY 2016
rex. Regional Express	3rd	2nd	0.5%	0.3%
QantasLink	4th	5th	2.6%	2.1%
Virgin Australia Regional Airlines	6th	4th	2.1%	1.4%
Qantas	2nd	1st	1.1%	1.2%
Virgin Australia	1st	3rd	1.5%	1.8%
Jetstar	7th	6th	2.2%	1.4%
Tigerair	5th	7th	1.0%	0.9%

COMMUNITY INVOLVEMENT

Throughout FY 16 Rex contributed over $285,000 in sponsorships to worthy charitable and community projects across our regional network.

Rex is proud to be able to directly give back to the local communities we service through corporate partnerships, flight sponsorship, and very importantly, by providing fare assistance to residents in our regional ports for travel to capital cities for medical attention.

Some of the causes and events supported by Rex during FY 16 are:

- Parkes Elvis Festival
- Julia Creek Dirt n Dust Festival
- Heart of Australia
- NSW Regional Woman of the Year Award
- Camp Quality Puppet Tour to King Island
- Normanton Barra Classic Fishing Competition
- Birdsville Big Red Bash
- Casino Beef Week

Rex Deputy Chairman the Hon. John Sharp with Rex Airlines' Regional Woman of the Year finalists (including winner Jodie McCrae in pink), and the Hon. Pru Goward MP, Minister for Women at the NSW Women of the Year Awards 2016.
Photo courtesy of the NSW Government.

With Rex's help, the Camp Quality Primary School Education Program and their puppet show visited King Island for the first time.
Photo courtesy of Camp Quality.

13/ CHANGES IN STATE OF AFFAIRS

No changes in the state of affairs were observed by the Group during the reporting period apart from what is reported in the Operational Review.

14/ SUBSEQUENT EVENTS

The Regional Express Pilots Enterprise Agreement (EA) was voted in on 23 July 2016. On 18 August 2016, the last remaining EA, the Regional Express Engineers Agreement was voted in.

Rex has introduced its fully in-house designed Electronic Flight Bags (EFB) across its entire Saab 340 fleet in the Rex Group. The EFB allows the electronic capture of data on aircraft cycles, flight times, engine trend monitoring, aircraft flow management and pilot flight times. This will provide significant efficiencies in accurately collecting critical data for both Engineering and Flight Operations. Rex received CASA approval for the EFB on 15 July 2016. This is the first time in the world that an EFB has been approved for Saab 340 aircraft operations.

Upcoming development will see the EFB loaded with Pilot Airway documents, aircraft load control and performance data, flight planning and weather related applications and the full suite of company manuals which will significantly improve operational efficiencies as well as safety.

The Electronic Flight Bag in use on the Saab 340 with effect from 18 July 2016.

15/ FUTURE DEVELOPMENTS

On the back of establishing new air services in WA (Perth/Albany and Perth/Esperance) during FY 16, Rex intends to actively explore new market opportunities in WA during the course of FY 17 and FY 18.

Rex has engaged in a ground breaking project to certify the Saab 340 for tolerance to the Transmitting of Personal Electronic Devices (TPED). This project involved extensive and rigorous testing and required the assistance of a specialised company in order to gain certification. The TPED approval allows the use of Bluetooth and Wi-Fi in the cabin throughout all phases of flight. This will provide passengers with greater adaptability in completing business tasks or enjoying entertainment while using their own personal device such as a tablet or laptop. Rex received CASA approval for TPED on 2 October 2015. Building on from the TPED approval, in-flight connectivity testing is now underway with a view to providing in-flight Wi-Fi access in the coming months.

Pel-Air has permanently deployed medivac jet aircraft to Singapore to service the ASEAN region and to intends to follow this up with a deployment of up to three additional medivac aircraft over FY 17 and FY 18.

16/ ENVIRONMENTAL REGULATIONS

During FY 16 Rex continued to be an active participant in programs aimed at maximising energy efficiency and reducing greenhouse gas emissions in accordance with the National Greenhouse Energy Reporting Act 2007 (NGER).

Rex is due to submit its 7th NGER report to the Clean Energy Regulator in October 2016.

17/ DIVIDENDS

No final dividends will be paid out for FY 16 due to the continued deteriorations of the operational and financial performance of the Group. However the Board is committed to a high dividend payout ratio once the Group is firmly on the path to recovery.

18/ INDEMNIFICATION OF OFFICERS AND AUDITORS

During the FY, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretaries (as named above), and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the FY, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

19/ REMUNERATION REPORT

REMUNERATIONS, NOMINATIONS AND DISCIPLINARY COMMITTEE

Rex's board of directors has established a Remunerations, Nominations and Disciplinary Committee for the purpose of determining and reviewing compensation arrangements for the directors and the senior management executives of the Group. This committee has a process for performance evaluation of the board, its committees and key executives of Rex. The committee's role is to assess the appropriateness of the nature and amount of remuneration of directors and senior management executives on a periodic basis.

REMUNERATION POLICY

Remuneration levels are set to enable Rex and its subsidiaries to attract and retain appropriately qualified and experienced directors and senior management executives, who will create sustainable value for shareholders and other stakeholders. They also fairly and responsibly reward directors and senior management, having regard to the performance of the Group, the performance of the individual and the external compensation environment.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, a distinction has been drawn between the remuneration structure of Rex's non-executive directors and that of its senior management executives. This enables Rex to maintain the independence of non-executive directors and reward senior management executives for their performance of duties and their dedication.

Rex has set in place a remuneration model for all staff which calls for staff accepting a lower fixed annual salary increase in exchange for a profit share and a share plan.

- **Profit Share Incentive Plan**

  The profit share incentive scheme, established ten years ago continues to award eligible employees a share of Rex's profit before tax (PBT) based on an agreed percentage (excluding contributions from subsidiaries and associates) for the FY immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part time employees receive an amount proportional to their employment hours. The Board continues to offer this to all non-Enterprise Agreement (EA) employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee.

- **Share Gift Plan**

  Rex established the share gift plan (effective from FY 06) for its executive directors and eligible employees. The plan is offered to EA groups that opt for the plan and all non-EA employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee. This plan is not based on any performance measures (other than eligibility for non-EA employees). The plan was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders. As such, the share gift plan entitles eligible employees to a fixed value of shares in exchange for a percentage of their base salaries. Therefore there are no vesting conditions attached to the share gift.

  During the FY, the Group bought back 791,489 fully paid ordinary shares for the share gift scheme.

DIRECTOR AND SENIOR MANAGEMENT DETAILS

The following persons acted as directors of the Company during or since the end of the FY:

Lim Kim Hai (Chairman)
The Hon. John Sharp (Deputy Chairman)
Lee Thian Soo
Neville Howell
Chris Hine
James Davis
Ronald Bartsch
Garry Filmer (until 12 January 2016)

The term ‘senior management’ is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the FY and since the end of the FY:

Neville Howell (Chief Operating Officer)
Warrick Lodge (General Manager, Network Strategy & Sales)
Irwin Tan (General Manager, Corporate Services / Company Secretary)
Mayooran Thanabalasingam (General Manager, Information Technology and Communications)
Dale Hall (General Manager, Engineering until 8 January 2016)
Png Yeow Tat (Deputy General Manager, Engineering until 31 December 2015, and then General Manager, Engineering from 1 January 2016)
Mark Burgess (Deputy General Manager, Engineering from 1 April 2016)
Paul Fisher (General Manager, Flight Operations & Chief Pilot)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The directors and other nominated key management personnel received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year:

		Short-term benefits		Post employment benefits	Long-term benefits	Share gift provision	
		Cash salary & fees	Cash profit sharing & other bonuses	Pension & super-annuation	Long service leave	Share Gift Issued	Total
Directors/Executives	FY	$	$	$	$	$	$
EXECUTIVE DIRECTORS							
LIM KIM HAI (1)	2016	-	-	-	-	-	-
Executive Chairman	2015	-	-	-	-	-	-
CHRIS HINE (2)	2016	141,960	-	13,486	2,172	618	158,236
Alternate Director to Garry Filmer & Group Flight Operations Advisor	2015	70,317	-	6,680	1,052	-	78,049
NEVILLE HOWELL	2016	215,259	-	19,029	3,205	3,800	241,293
Executive Director & Chief Operating Officer	2015	203,634	308	18,380	3,156	3,537	229,015
GARRY FILMER (2)	2016	49,389	-	4,692	2,000	823	56,904
Alternate Director to Chris Hine & Group Engineering Training Manager & Engineering Advisor	2015	55,312	308	5,284	1,106	3,164	65,174
NON-EXECUTIVE DIRECTORS							
JOHN SHARP	2016	93,461	-	8,879	-	-	102,340
Deputy Chairman	2015	90,000	-	8,550	-	-	98,550
LEE THIAN SOO	2016	31,154	-	-	-	-	31,154
Non-Executive Director	2015	30,000	-	-	-	-	30,000
RONALD BARTSCH	2016	36,346	-	3,453	-	-	39,799
Non-Executive Director	2015	35,000	-	3,325	-	-	38,325
JAMES DAVIS	2016	41,538	-	3,946	-	-	45,484
Non-Executive Director	2015	31,308	-	2,974	-	-	34,282
SENIOR MANAGEMENT EXECUTIVES							
WARRICK LODGE	2016	170,350	-	16,183	2,735	3,242	192,510
GM, Network Strategy & Sales	2015	161,914	308	15,411	2,692	3,242	183,567
IRWIN TAN	2016	185,927	-	17,663	2,735	3,242	209,567
GM, Corporate Services	2015	176,914	308	16,836	2,779	3,242	200,079
MAYOORAN THANABALASINGAM	2016	175,542	-	16,677	2,735	3,242	198,196
GM, ITC	2015	166,914	308	15,886	2,692	3,242	189,042
PAUL FISHER	2016	189,173	30,139	18,135	4,559	3,600	245,606
GM, Flight Operations & Chief Pilot	2015	179,260	29,250	17,122	4,487	3,336	233,455
PNG YEOW TAT (2)	2016	154,999	-	14,725	2,581	2,853	175,158
GM, Engineering	2015	142,483	308	13,565	2,372	2,853	161,581
MARK BURGESS (2)	2016	129,252	16,438	13,841	3,375	2,400	165,306
Deputy GM, Engineering							
DALE HALL (2)	2016	134,385	-	9,151	1,229	2,906	147,671
GM, Engineering	2015	165,164	231	15,713	2,414	2,906	186,428
TOTAL	2016	1,748,735	46,577	159,860	27,326	26,726	2,009,224
	2015	1,508,220	31,329	139,726	22,750	25,522	1,727,547

(1) Lim Kim Hai undertook to forfeit his Director's fee since November 2008 in response to the global economic crisis and continued to do so in this reporting period in the light of the continuing difficult environment.

(2) Please see Directors' Report on pages 6 to 10 for changes of appointment details.

VALUE OF OPTIONS ISSUED TO DIRECTORS AND EXECUTIVES

No options lapsed, were granted or were exercised during FY 16.

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

In addition to the profit share and share gift schemes that apply to all non-EA staff, a Key Manager bonus, fixed by the Remunerations, Nominations and Disciplinary Committee, was given to selected members of executive management based on an assessment of the recipient's performance during the year.

The tables below set out summary information about the Group's results and movements in shareholder wealth for the five years to June 2016:

	30 June 2016 $'000	30 June 2015 $'000	30 June 2014 $'000	30 June 2013 $'000	30 June 2012 $'000
Revenue	261,906	256,217	253,336	258,311	273,145
Net (loss) / profit before tax	(10,703)	9,296	10,662	19,177	35,077
Net (loss) / profit after tax	(9,557)	6,672	7,725	14,018	25,497

[1] The final dividend is per share fully franked and after corporate tax of 30%.

[2] Declared after the balance date and reflected in the financial statements of the year of payment.

KEY TERMS OF EMPLOYMENT CONTRACTS

Employment contracts between the senior management executives and the Group do not have a specified duration. A notice of four weeks must be given for senior management executives to terminate their contract. There are no extraordinary termination payments set out in the contracts of the senior management executives of the Group.

KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

The following table details the shareholdings (total of direct and indirect shareholdings) of directors and key management personnel in the Group:

	Balance at 1 July 2015	Additions during the year	Balance at 30 June 2016
Directors:			
Lim Kim Hai	24,406,859	247,000	24,653,859
The Hon. John Sharp	200,000	-	200,000
Lee Thian Soo	11,449,362	-	11,449,362
Neville Howell	22,203	3,654	25,857
Chris Hine	176,034	594	176,628
James Davis	200,866	-	200,866
Garry Filmer	22,247	791	23,038
Key management personnel:			
Warrick Lodge	147,910	3,117	151,027
Irwin Tan	23,694	3,117	26,811
Dale Hall	37,441	2,795	40,236
Mayooran Thanabalasingam	76,272	3,117	79,389
Paul Fisher	31,794	3,462	35,256
Png Yeow Tat	17,822	2,743	20,565
Mark Burgess	12,145	2,307	14,452

During the financial year, no options were granted to (2015: nil), nor exercised (2015: nil) by key management personnel for ordinary Rex shares. No options remained unpaid or to be exercised at the year end.

20/ PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the Group, nor has any application been made in respect of the Group under s.237 of the Corporations Act 2001.

21/ NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 26 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

22/ ROUNDING OFF OF AMOUNTS

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements amounts in the financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Neville Howell
Chief Operating Officer
Sydney, 24 August 2016

Deloitte.

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The Board of Directors
Regional Express Holdings Limited
81 – 83 Baxter Road
MASCOT NSW 2020

24 August 2016

Dear Board Members

Regional Express Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Regional Express Holdings Limited.

As lead audit partner for the audit of the financial statements of Regional Express Holdings Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. J. Gatt
Partner
Chartered Accountant

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CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

The Board is committed to sound corporate governance to ensure shareholder expectations are met and that Regional Express Holdings (the Company) is in compliance with the Australian Securities Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations).

As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the FY to 30 June 2016 and identifies any of the ASX Recommendations not followed and the reason why the Company has not adopted the ASX Recommendations. This statement adopts the ordering and numbering of the ASX Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a charter that details the roles and responsibilities of the Board and those of the Management Committee to achieve the objectives of delivering shareholder value. The Board regularly reviews the division of functions between the Board and management to ensure that it continues to be appropriate to the needs of the company (ASX Recommendation 1.1). The Remunerations, Nominations and Disciplinary Committee undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. The biography of each director standing for election or re-election is expressly mentioned in the Notice of Meeting of the company's AGM (ASX Recommendation 1.2). The Directors and Management Committee have a clear understanding of their roles and responsibilities and of the company's expectations of them as set out in their employment contracts (ASX Recommendation 1.3). The Company Secretaries are integral in advising the Board and its committees on governance matters, ensuring that board and committee policy and procedures and followed, and helping to organise and minuting discussions of board and committee meetings (ASX Recommendation 1.4).

The performance of each Management Committee member is evaluated against goals and objectives at least once a year with the assistance of the Remunerations, Nominations and Disciplinary Committee. The performance of the Management Committee was reviewed in FY 16 (ASX Recommendation 1.6).

The Board's Charter, Board Committee Charters, Share Trading Policy, Continuous Disclosure Policy and Code of Conduct are available for access by shareholders and the general public in the corporate governance section of the Company's website (ASX Recommendation 3.5).

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The **Remunerations, Nominations and Disciplinary Committee** has been established by the Board of the Company (ASX recommendation 2.1) and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

- the directors and senior management of the Group are remunerated fairly and appropriately;
- the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty;
- the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board;
- it reviews and advises the Board on the composition of the Board and its Committees;
- it reviews the performance of the Board, the chairman of the Board, the executive and non-executive directors, and other individual members of the Board; and
- proper succession plans are in place for consideration by the Board.

This Committee is chaired by the Hon. John Sharp and has one other member, James Davis. The Committee had three meetings during the FY attended by all members of the Committee. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report.

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors and have at least three members. The Committee is currently made up of two independent directors. The Board feels at this stage that two members are sufficient for the Remunerations, Nominations and Disciplinary Committee given the size of the Company and Board.

The Remunerations, Nominations and Disciplinary Committee has a formal charter which is available on the Company's website.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are set out in the Director's Report.

Below is the Rex Board skills matrix outlining the skills that the board currently has (ASX Recommendation 2.2):

		LIM KIM HAI	JOHN SHARP	LEE THIAN SOO	RONALD BARTSCH	JAMES DAVIS	CHRIS HINE	NEVILLE HOWELL	GARRY FILMER*
BUSINESS / ENTREPRENEURIAL EXPERIENCE		X	X	X	X				
POLITICAL EXPERIENCE			X						
CORPORATE GOVERNANCE		X	X	X	X				
SAFETY AND RISK MANAGEMENT					X	X	X	X	X
FINANCE		X							
LEGAL					X				
INDUSTRY EXPERIENCE	REGULATORY KNOWLEDGE AND EXPERIENCE				X	X	X	X	X
	PILOT		X		X	X	X	X	
	ENGINEERING KNOWLEDGE					X			X

*Alternate Director to Chris Hine

The membership of the Board during the year ended 30 June 2016, including independence status was as follows (ASX Recommendation 2.3):

Director	Status	Date of Appointment
Lim Kim Hai	Executive Chairman	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.
The Hon. John Sharp	Deputy Chairman and Independent Director	Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011 and 27 November 2013.
Lee Thian Soo	Non-Executive Director	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.
Neville Howell	Chief Operating Officer	Appointed 1 July 2014 and re-appointed 26 November 2014.
Chris Hine	Executive Director & Group Flight Operations Advisor	Appointed 1 March 2011 and re-appointed 23 November 2011 as Executive Director. Appointed 26 November 2014 as Non-Executive Director. Appointed 18 May 2015 as Executive Director and Group Flight Operations Advisor.
James Davis	Independent Director	Appointed 26 August 2004 as Executive Director and re-appointed 23 November 2011 and 26 November 2014 as Independent Director.
Ronald Bartsch	Independent Director	Appointed 23 November 2010 and re-appointed 23 November 2011 and 26 November 2014.
Garry Filmer	Alternate Director to Chris Hine	Appointed 1 March 2012 and re-appointed 27 November 2012. Stepped down as Alternate Director to Chris Hine on 12 January 2016.

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors (ASX Recommendation 2.4). Although the Board has only three directors out of eight (including alternate director Garry Filmer) that qualify as independent non-executive directors, Lee Thian Soo is non-executive and is only considered non-independent by virtue of his share ownership. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director and for his role to be segregated from that of the Chief Executive Officer (ASX Recommendations 2.5). However, the Board views the Chairman's history of leadership of the Company as an advantage, both at the management level and at the Board level. This has resulted in performance that matches the best airlines in the world. The Board acknowledges that if the Chair is not an independent director, the Deputy Chairman should be an independent director, which is the case.

The Board is responsible for the management of the affairs of the Company and its subsidiaries (the Group), including:

(A) STRATEGIC AND FINANCIAL PERFORMANCE

- Developing and approving the corporate strategy.
- Evaluating, approving and monitoring the strategic and financial plans and objectives of the Group.
- Evaluating, approving and monitoring the annual budgets and business plans.
- Determining the Company's dividend policy, the operation of the Company's dividend re-investment plan (if any), and the amount and timing of all dividends.
- Evaluating, approving and monitoring major capital expenditure, capital management and all major acquisitions, divestitures and other corporate transactions, including the issue of securities of the Company.
- Approving all accounting policies, financial reports and material reporting and external communications by the Group.
- Appointment of the Chairman of the Company.

(B) EXECUTIVE MANAGEMENT

- Appointing, monitoring and managing the performance of the Chief Operating Officer or Managing Director and other executive directors.
- Managing succession planning for the executive directors and such other key management positions which may be identified from time to time.
- Appointing the Company Secretary.
- With the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, reviewing and approving the performance and remuneration of the individual Board members and policies with respect to remuneration of any employees.

(C) AUDIT

- Upon the recommendation of the Audit and Corporate Governance Committee, appointing the external auditor and determining its remuneration and terms of appointment.
- Ensuring that effective audit and regulatory compliance programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's audit framework. Approving and, with the assistance and advice of the Audit and Governance Committee, monitoring compliance with the Group's audit policies and protocol.
- Monitoring the Group's operations in relation to, and compliance with relevant regulatory and legal requirements.

(D) CORPORATE GOVERNANCE

- At least once every two years the Board will, with the assistance and advice of the Audit and Corporate Governance Committee, review the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amend those policies and procedures as necessary.
- The Board will review and approve all disclosures related to any departures from the ASX Principles of Good Corporate Governance.
- The Board will review and approve the public disclosure of any of the Group's policies and procedures.
- The Board will supervise the public disclosure of all matters that the law and ASX Listing Rules require to be publicly disclosed, consistent with the Continuous Disclosure Compliance Policy approved by the Board.
- The Board will approve the appointment of directors to committees established by the Board.
- The Board will approve and monitor delegations of authority.

(E) RISK MANAGEMENT

- The Company recognises that the management of business and economic risk is an integral part of its operations and has for many years integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance. The Board has established a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee and the Audit and Corporate Governance Committee.
- Ensuring that effective risk management programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's risk framework, including (but not limited to) systems of risk management and internal control.
- Approving and, with the assistance and advice of the Risk Management Committee, monitoring compliance with the Group's risk.
- The Charters of both committees are available on the Company's website.

(F) STRATEGIC PLANNING

- The Board will be actively and regularly involved in strategic planning.
- Strategic planning will be based on the identification of opportunities and the full range of business risks that will determine which of those opportunities are most worth pursuing.
- The Board will, on an ongoing basis, review how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted.

(G) PERFORMANCE EVALUATION

- At least once per year the Board will, with the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, review and evaluate the performance of the Board, each Board Committee, and each individual director against the relevant Charters, corporate governance policies, and agreed goals and objectives (ASX Recommendation 2.5).
- Following each review and evaluation the Board will consider how to improve its performance.
- The Board will agree and set the goals and objectives for the Board and its Committees each year, and if necessary, amend the relevant Charters and policies.
- With the advice and assistance of the Remunerations, Nominations and Disciplinary Committee, the Board will review and approve the remuneration of the Company's executive and non-executive directors.

The evaluation of the Board, its committees and directors was carried out during the FY as set out above.

A Director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out in the Board Charter.

The Board believes that its members have the appropriate skill set and knowledge to effectively perform their roles as directors without requiring further professional development. Our board members have a vast wealth of experience in the aviation industry and beyond as a majority of them have aircraft pilot qualifications.

The Company has a program for inducting new Directors.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Directors and the Management Committee are required to maintain the highest legal, moral and ethical standards of conduct. The Board has adopted the Code of Conduct which provides guidance to all staff on compliance with legal and other obligations (ASX Recommendation 3.1).

The Company has established a Share Trading Policy (ASX Recommendation 1.3). Under this policy, Directors and Management Committee are prohibited from trading in securities of the Company without prior approval from the Board.

The Company employs all staff on their merits and is committed to recognising and valuing the contributions of staff from diverse backgrounds. The Company has established a Diversity Policy (ASX Recommendation 1.5).

The Company does not believe in an affirmative action policy and setting of artificial targets for staff of various backgrounds (gender, religious, cultural, racial etc) but rather in ensuring that all staff are able to develop to their full extent of their capabilities and contributions (ASX Recommendation 3.3).

The Company was compliant with the Workplace Gender Equality Act 2012 as reported by the Workplace Gender Equality Agency.

As at the end of the reporting period the proportion of female employees in the Company was 32.4%. There were thirteen women holding management positions in the Company. There were no female Board members or Management Committee members (ASX Recommendation 3.4).

In accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), Regional Express Holdings Limited lodged its annual public report (2015-2016) with the Workplace Gender Equality Agency (Agency).

To access a copy of the report refer to the Rex website under Corporate and Social Responsibilities.

Details on the reporting process can be located at the Workplace Gender Equality Website: www.wgea.gov.au

The Code of Conduct, Share Trading Policy and Diversity Policy are available on the Company's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The **Audit and Corporate Governance Committee** has been established by the Board of the Company (ASX recommendation 4.1) to assist the Board in fulfilling its commitment to ensure the integrity of the Company's financial reports and Corporate Governance policies:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Group's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct;
- advising the Board on good governance standards and appropriate corporate governance policies for the Group; and
- critically reviewing the Group's performance against its corporate governance policies.

In FY 16 this Committee was chaired by Lee Thian Soo and had one other member, the Hon. John Sharp. In FY 17, this Committee is chaired by the Hon. John Sharp and has one other member, James Davis. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report. The Committee had two meetings during FY 16 attended by all then-current members of the Committee.

The Board acknowledges the ASX recommendations to have the Committee composed of a majority of independent directors, chaired by an independent director and have at least three members (ASX Recommendation 4.1).

The Committee is currently made up of two non-executive directors of which both are independent. The Board feels that the directors in the audit committee will make decisions that are in the best interests of the shareholders in their duties as audit committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the audit committee given the size of the company and Board.

The Audit and Corporate Governance Committee has a formal Charter which is available on the Company's website (ASX Recommendation 4.1).

The Chief Operating Officer and the General Manager (GM) Corporate Services who oversees the finance department, provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently (ASX Recommendation 4.2).

The Board acknowledges the ASX Recommendation to have the Chief Executive Officer and Chief Financial Officer provide this statement to the Board. The Board believes that it is appropriate for Chief Operating Officer and GM Corporate Services to provide the statement.

The directors have ensured that the Company's External Auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report thereon (ASX Recommendation 4.3).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Company has adopted and implemented a Continuous Disclosure Policy which sets out the procedure for the identification of material price sensitive information and reporting of such information to the company secretaries for review (ASX Recommendation 5.1). The Continuous Disclosure Policy is available on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Company's policy that the principal communication with shareholders apart from the Company website is the provision of the Annual Report, including the Financial Statements, half yearly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in half-yearly investor briefings either by attendance or by dialling in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum (ASX Recommendation 6.3). The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters (ASX Recommendation 6.1).

The Board acknowledges the ASX recommendation of facilitating effective two-way communication with investors. Shareholders are able to contact the company through the company secretaries.

The Company acknowledges that some security holders prefer the speed, convenience and environmental friendliness of electronic communications over more traditional methods of communication. To this end the Company provides its security holders with the option of receiving either a hard or soft copy of its annual report and notice of meeting for its Annual General Meeting (ASX Recommendation 6.4).

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance.

The Board has established policies for a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee (Recommendation 7.1).

The **Safety and Risk Management Committee** has been established by the Board of the Company and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- assisting the Board in fulfilling its development, oversight and review responsibilities for the safety culture and safety management processes as defined by the separate safety policies published for each Air Operator Certificate holder within the Group; and
- implementing and supervising the Group's operational risk assessment framework.

The Board acknowledges the ASX recommendation to have the Committee composed of a majority of independent directors and chaired by an independent director and have at least three members (ASX Recommendation 7.1).

The Committee is currently made up of one independent director. The Board feels that the directors in the Safety and Risk Management Committee will make decisions that are in the best interests of the shareholders in their duties as Safety and Risk Management Committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the Safety and Risk Management Committee given the size of the company and Board.

The Safety and Risk Management Committee has a formal Charter which sets out the responsibilities of the Committee as well as the Company's policies on risk oversight and management. The Charter is available on the Company's website.

The Board reviews the safety and risk management report prepared by the Group's Safety Manager at each Board meeting (ASX Recommendation 7.2).

Being an airline, Rex is required by the Civil Aviation Safety Authority to have a safety and compliance department. Staffed by approximately 13 full time equivalent employees, this department conducts internal audits of all Rex's operations including flight operations, engineering and airport operations. The head of this department, the GM Human Factors, has a direct reporting line to the Board and Chairman (ASX Recommendation 7.3).

The Company has outlined its main material risk sources that could adversely affect the entity's prospects for future FYs and has explained how these risks are managed in the Directors' Report (ASX Recommendations 7.1 and 7.4).

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remunerations, Nominations and Disciplinary Committee. The membership, responsibilities and number of meetings held have been set out under Principle 2. Also set out under Principle 2 is the explanation as to why the membership of the Committee differs from the ASX Recommendations.

Details of the Board and Management Committee remuneration structures are contained in the Remuneration Report (ASX Recommendation 8.2 and 8.3).

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FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016 $'000	2015 $'000
Passenger revenue		227,239	210,343
Freight revenue		1,333	1,027
Charter revenue		24,862	34,750
Other passenger services and amenities		2,371	2,427
Other revenue	4	6,101	7,670
Total revenue		**261,906**	**256,217**
Finance income	4	**721**	**849**
Other losses	4	**(250)**	**(1,166)**
Flight and port operation costs (excluding fuel)		(48,569)	(42,198)
Fuel costs		(35,150)	(36,883)
Salaries and employee-related costs	4	(103,001)	(99,964)
Selling and marketing costs		(6,855)	(6,310)
Engineering and maintenance costs		(39,149)	(36,683)
Office and general administration costs	4	(7,090)	(6,520)
Finance costs	4	(2,171)	(2,171)
Depreciation and amortisation	4	(16,136)	(15,875)
Asset impairment	4	(8,344)	-
Goodwill impairment	4	(6,615)	-
Total costs and expenses		**(273,080)**	**(246,604)**
(Loss) / profit before tax		**(10,703)**	**9,296**
Tax benefit / (expense)	5	1,146	(2,624)
(Loss) / profit after tax		**(9,557)**	**6,672**
(Loss) / profit attributable to			
Members of the parent		(9,557)	6,672
		(9,557)	**6,672**
(Loss) / earnings per share		cents per share	cents per share
Basic	16	(8.8)	6.2
Diluted	16	(8.8)	6.2

Notes to the financial statements are included on pages 43 to 76.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OR LOSS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016 $'000	2015 $'000
(Loss) / profit after tax		**(9,557)**	**6,672**
Other comprehensive income			
Hedge reserve			
Revaluation of cash flow hedges	15	969	-
Income tax effect	15	(291)	-
Other comprehensive income, net of tax		**678**	**-**
Total comprehensive (loss) / income		**(8,879)**	**6,672**

Notes to the financial statements are included on pages 43 to 76.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 $'000	2015 $'000
Current assets			
Cash and bank balances	22	26,821	23,360
Trade and other receivables	6	9,626	11,742
Inventories	7	22,964	20,170
Other financial assets		1,105	-
Current tax assets		-	96
Total current assets		**60,516**	**55,368**
Non-current assets			
Other receivables	6	7,448	7,966
Available for sale investments carried at fair value – shares		9	10
Property, plant and equipment	8		
Aircraft		108,572	125,987
Other property, plant and equipment		94,296	83,707
Goodwill and other intangible assets	9	1,026	7,893
Total non-current assets		**211,351**	**225,563**
Total assets		**271,867**	**280,931**
Current liabilities			
Trade and other payables	10	25,912	23,127
Unearned revenue	11	19,341	18,208
Borrowings	12	6,641	9,200
Provisions	13	5,413	5,418
Current tax payable	5	1,069	-
Other financial liabilities		136	-
Total current liabilities		**58,512**	**55,953**
Non-current liabilities			
Borrowings	12	23,638	26,229
Provisions	13	1,857	1,115
Deferred tax liabilities	5	807	2,793
Total non-current liabilities		**26,302**	**30,137**
Total liabilities		**84,814**	**86,090**
Net assets		**187,053**	**194,841**
Equity			
Issued capital	14	72,024	72,024
Reserved shares	15	(1,821)	(2,273)
Retained earnings		112,995	122,552
Share-based payments reserve	15	1,587	948
Other reserves	15	2,268	1,590
Total equity		**187,053**	**194,841**

Notes to the financial statements are included on pages 43 to 76.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	2016 $'000	2015 $'000
Receipts from customers		291,139	287,363
Payments to suppliers, employees and others		(261,590)	(259,324)
Interest paid		(2,464)	(2,926)
Income tax refunded / (paid)		1,343	(1,442)
Net cash flows from operating activities	22 (B)	**28,428**	**23,671**
Interest received		721	849
Proceeds from investment - capital reduction		1	-
Proceeds from disposal of property, plant and equipment		228	1,408
Payments for property, plant and equipment - aircraft and other		(20,011)	(13,912)
Payments for property, plant and equipment - software		(88)	(128)
Net cash flows used in investing activities		**(19,149)**	**(11,783)**
Shares purchased as reserve shares		(668)	(1,847)
Repayment of borrowings – non-related parties		(8,515)	(8,648)
Proceeds from borrowings		3,365	-
Net cash flows used in financing activities		**(5,818)**	**(10,495)**
Net increase in cash held		**3,461**	**1,393**
Cash at the beginning of the financial year		**23,360**	**21,967**
Cash at the end of the financial year	22 (A)	**26,821**	**23,360**

Notes to the financial statements are included on pages 43 to 76.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Attributable to equity holders of the Company						
	Issued capital $'000	Reserved shares $'000	Retained earnings $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	General reserve $'000	Total equity $'000
At 1 July 2014	**72,024**	**(1,182)**	**115,880**	**789**	**-**	**1,590**	**189,101**
Profit for the year	-	-	6,672	-	-	-	6,672
Other comprehensive income, net of tax	-	-	-	-	-	-	-
Total comprehensive income	-	-	6,672	-	-	-	6,672
Shares purchased as reserve shares	-	(1,847)	-	-	-	-	(1,847)
Share gift issued - gift	-	756	-	(634)	-	-	122
Share gift plan provision	-	-	-	793	-	-	793
At 30 June 2015	**72,024**	**(2,273)**	**122,552**	**948**	**-**	**1,590**	**194,841**
At 1 July 2015	**72,024**	**(2,273)**	**122,552**	**948**	**-**	**1,590**	**194,841**
Loss for the year	-	-	(9,557)	-	-	-	(9,557)
Other comprehensive income, net of tax	-	-	-	-	678	-	678
Total comprehensive (loss) / income	-	-	(9,557)	-	678	-	(8,879)
Shares purchased as reserve shares	-	(668)	-	-	-	-	(668)
Share gift issued - gift	-	1,120	-	(688)	-	-	432
Share gift plan provision	-	-	-	1,327	-	-	1,327
At 30 June 2016	**72,024**	**(1,821)**	**112,995**	**1,587**	**678**	**1,590**	**187,053**

Notes to the financial statements are included on pages 43 to 76.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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01/ GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is listed on the Australian Securities Exchange (Trading under symbol 'REX'), incorporated and operating in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia. Principal activities of the Group are the provision of air services principally for the transportation of passengers and freight.

02/ APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end. The most relevant amendment is noted below. The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The potential impact of these Standards and Interpretations has not yet been fully determined. The Group does not intend to adopt any of these announcements before their effective dates.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017

At the date of report, there are no pronouncements approved by the IASB/IFRIC that have yet to be issued by the AASB.

03/ CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 30, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance date was $518 thousand (2015: $7,133 thousand) after recognizing an impairment charge of $6,615 thousand during the year (2015: nil). Note 9 provides more information.

FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

As described in Note 23, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

As described in Note 30 (S), the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, it is determined that the useful lives of property, plant and equipment correctly reflected the rate at which the assets are consumed.

EMPLOYEE ENTITLEMENTS

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

04/ REVENUES AND EXPENSES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	2016 $'000	2015 $'000
Other revenue		
Training income	1,557	2,347
Engineering services	701	123
Insurance claim	148	144
Other income	3,695	5,056
	6,101	**7,670**
Finance income		
Interest	721	849
	721	**849**
Other losses		
Net foreign currency loss	(345)	(1,116)
Gain / (loss) on disposal of property, plant and equipment	95	(50)
	(250)	**(1,166)**
Salaries and employee-related costs		
Wages and salaries (including bonus – profit share scheme)	(93,716)	(91,205)
Workers' compensation costs	(987)	(968)
Superannuation costs - defined contribution plan	(6,971)	(6,998)
Expense of share-based payments	(1,327)	(793)
	(103,001)	**(99,964)**
Office and general administrative costs		
Bad debts written-off	(80)	(108)
	(80)	**(108)**
Finance costs		
Interest on bank borrowings and finance leases	(2,464)	(2,926)
less: amounts amortised over future contract periods	293	755
Interest expense	**(2,171)**	**(2,171)**
The weighted average interest rate on borrowings is 9.1% per annum, and 4.3% per annum for finance leases.		
Depreciation and amortisation		
Depreciation and amortisation of property, plant and equipment	(15,796)	(15,527)
Amortisation of development costs and software	(340)	(348)
	(16,136)	**(15,875)**
Impairment		
Asset impairment	(8,344)	-
Goodwill impairment	(6,615)	-
	(14,959)	**-**
Lease payments included in consolidated statement of profit or loss		
Included in flight and port operation costs		
Minimum lease payments – operating lease	(231)	-
	(231)	**-**

05/ INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2016 $'000	2015 $'000
Tax expense comprises:		
Current tax expense	1,391	1,109
Prior period tax expense	283	-
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	(2,820)	1,515
Tax (benefit) / expense	**(1,146)**	**2,624**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
(Loss) / profit before tax from operations	(10,703)	9,296
Tax (benefit) / expense calculated at 30%	(3,211)	2,789
Tax on non deductible expense / (non assessable income)	1,918	(13)
Prior period tax expense	283	-
Previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	(136)	(152)
Tax (benefit) / expense	**(1,146)**	**2,624**
The effective tax rates are as follows:	(10.7%)	28.2%

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

The following current and deferred tax amounts have been recognised in the statement of financial position.

	2016 $'000	2015 $'000
Current tax assets and liabilities		
Current tax payable		
Income tax attributable:		
Parent entity	1,069	-
	1,069	**-**
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	7,499	4,611
	7,499	**4,611**
Deferred tax liabilities comprise:		
Temporary differences	(8,306)	(7,404)
	(8,306)	**(7,404)**
Net deferred tax assets / (liabilities)	**(807)**	**(2,793)**

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions / disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
30 June 2016							
Gross deferred tax liabilities							
Inventories	(5,426)	(484)	-	-	-	-	(5,910)
Other items	(1,978)	(418)	-	-	-	-	(2,396)
	(7,404)	**(902)**	**-**	**-**	**-**	**-**	**(8,306)**
Gross deferred tax assets							
Employee-related provisions	2,571	102	-	-	-	-	2,673
Provision for doubtful debts	9	-	-	-	-	-	9
Other items	2,031	2,786	-	-	-	-	4,817
	4,611	**2,888**	**-**	**-**	**-**	**-**	**7,499**
Net deferred tax	**(2,793)**	**1,986**	**-**	**-**	**-**	**-**	**(807)**
30 June 2015							
Gross deferred tax liabilities							
Inventories	(4,339)	(1,087)	-	-	-	-	(5,426)
Other items	(2,096)	118	-	-	-	-	(1,978)
	(6,435)	**(969)**	**-**	**-**	**-**	**-**	**(7,404)**
Gross deferred tax assets							
Employee-related provisions	2,482	89	-	-	-	-	2,571
Provision for doubtful debts	9	-	-	-	-	-	9
Other items	2,666	(635)	-	-	-	-	2,031
	5,157	**(546)**	**-**	**-**	**-**	**-**	**4,611**
Net deferred tax	**(1,278)**	**(1,515)**	**-**	**-**	**-**	**-**	**(2,793)**

Deferred tax assets of $99 thousand (2015: $356 thousand) from tax losses have not been brought to accounts as assets.

06/ TRADE AND OTHER RECEIVABLES

	2016 $'000	2015 $'000
Current		
Trade receivables	5,237	7,347
Provision for doubtful debts	(31)	(31)
	5,206	**7,316**
Sundry debtors and other debtors	2,816	2,829
Prepayments	1,604	1,597
	9,626	**11,742**
Non-current		
Other receivables – at amortised cost	7,448	7,966
	7,448	**7,966**

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the provision has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors. The Group has provided fully for all receivables deemed irrecoverable based on historical experience.

Before accepting new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Majority of the Group's revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies.

	2016 $'000	2015 $'000
Ageing of past due but not impaired		
60 - 90 days	-	4
90 - 120 days or more	-	82
Total	**-**	**86**
Average age (days)	30	283
Movement in the provision for doubtful debts		
Balance at the beginning of the year	(31)	(31)
Balance at the end of the year	**(31)**	**(31)**
Ageing of impaired trade receivables		
60 - 90 days	-	-
90 - 120 days	-	-
120+ days	(31)	(31)
Total	**(31)**	**(31)**

07/ INVENTORIES

	2016 $'000	2015 $'000
Current		
Consumable spares at cost	22,964	20,170

08/ PROPERTY, PLANT AND EQUIPMENT

	Opening gross carrying amount $'000	Additions $'000	Disposals / Reclassification $'000	Impairment $'000	Closing gross carrying amount $'000
At 30 June 2016					
Aircraft	195,944	2,686	(4,286)	-	194,344
Other property, plant and equipment					
Rotable assets	63,302	12,598	(4,402)	-	71,498
Engines	5,522	1,684	(1,035)	-	6,171
Plant and equipment	10,952	764	(238)	-	11,478
Land and buildings	29,911	1,750	22	-	31,683
Leasehold improvements	1,327	103	(22)	-	1,408
Motor vehicles	2,436	127	(60)	-	2,503
Furniture and fittings	1,072	57	(21)	-	1,108
Computer equipment	2,127	242	(29)	-	2,340
Other property, plant and equipment	116,649	17,325	(5,785)	-	128,189
Total property, plant and equipment	**312,593**	**20,011**	**(10,071)**	**-**	**322,533**
At 30 June 2015					
Aircraft	193,917	2,053	(26)	-	195,944
Other property, plant and equipment					
Rotable assets	56,348	9,570	(2,616)	-	63,302
Engines	8,527	698	(3,703)	-	5,522
Plant and equipment	12,804	943	(2,795)	-	10,952
Land and buildings	31,212	198	(1,499)	-	29,911
Leasehold improvements	1,274	53	-	-	1,327
Motor vehicles	2,350	86	-	-	2,436
Furniture and fittings	1,365	9	(302)	-	1,072
Computer equipment	2,164	302	(339)	-	2,127
Other property, plant and equipment	116,044	11,859	(11,254)	-	116,649
Total property, plant and equipment	**309,961**	**13,912**	**(11,280)**	**-**	**312,593**

08/ PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Opening accumulated depreciation and impairmen $'000	Disposals / Reclassification $'000	Depreciation charge for the year $'000	Impairment $'000	Closing accumulated depreciation and impairment $'000
At 30 June 2016					
Aircraft	(69,957)	2,610	(10,081)	(8,344)	(85,772)
Other property, plant and equipment					
Rotable assets	(15,972)	4,294	(2,870)	-	(14,548)
Engines	(2,374)	334	(481)	-	(2,521)
Plant and equipment	(5,085)	63	(1,096)	-	(6,118)
Land and buildings	(4,583)	-	(768)	-	(5,351)
Leasehold improvements	(1,154)	-	(42)	-	(1,196)
Motor vehicles	(1,223)	38	(188)	-	(1,373)
Furniture and fittings	(880)	19	(80)	-	(941)
Computer equipment	(1,671)	16	(190)	-	(1,845)
Other property, plant and equipment	(32,942)	4,764	(5,715)	-	(33,893)
Total property, plant and equipment	**(102,899)**	**7,374**	**(15,796)**	**(8,344)**	**(119,665)**
At 30 June 2015					
Aircraft	(59,838)	-	(10,119)	-	(69,957)
Other property, plant and equipment					
Rotable assets	(16,149)	2,578	(2,401)	-	(15,972)
Engines	(3,746)	1,954	(582)	-	(2,374)
Plant and equipment	(6,830)	2,804	(1,059)	-	(5,085)
Land and buildings	(3,902)	88	(769)	-	(4,583)
Leasehold improvements	(1,063)	-	(91)	-	(1,154)
Motor vehicles	(1,040)	-	(183)	-	(1,223)
Furniture and fittings	(1,054)	286	(112)	-	(880)
Computer equipment	(1,799)	339	(211)	-	(1,671)
Other property, plant and equipment	(35,583)	8,049	(5,408)	-	(32,942)
Total property, plant and equipment	**(95,421)**	**8,049**	**(15,527)**	**-**	**(102,899)**

	Opening net carrying amount $'000	Closing net carrying amount $'000
At 30 June 2016		
Aircraft	125,987	108,572
Other property, plant and equipment		
Rotable assets	47,330	56,950
Engines	3,148	3,650
Plant and equipment	5,867	5,360
Land and buildings	25,328	26,332
Leasehold improvements	173	212
Motor vehicles	1,213	1,130
Furniture and fittings	192	167
Computer equipment	456	495
Other property, plant and equipment	83,707	94,296
Total property, plant and equipment	**209,694**	**202,868**
At 30 June 2015		
Aircraft	134,079	125,987
Other property, plant and equipment		
Rotable assets	40,199	47,330
Engines	4,781	3,148
Plant and equipment	5,974	5,867
Land and buildings	27,310	25,328
Leasehold improvements	211	173
Motor vehicles	1,310	1,213
Furniture and fittings	311	192
Computer equipment	365	456
Other property, plant and equipment	80,461	83,707
Total property, plant and equipment	**214,540**	**209,694**

Aircraft impairment of $8,344 thousand has been recognised for the year ended 30 June 2016 (2015: nil). See Note 9 for details.

09/ GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $'000	Software and development costs $'000
At 30 June 2016		
Cost	518	2,344
Accumulated amortisation	-	(1,836)
Net carrying amount	**518**	**508**
Total goodwill and other intangible assets		**1,026**
Reconciliation		
At 1 July 2015, net of accumulated amortisation	7,133	760
Additions	-	88
Impairment	(6,615)	-
Amortisation at 30 June 2016	-	(340)
At 30 June 2015, net of accumulated amortisation	**518**	**508**
Total goodwill and other intangible assets		**1,026**
At 30 June 2015		
Cost	7,133	2,276
Accumulated amortisation	-	(1,516)
Net carrying amount	**7,133**	**760**
Total goodwill and other intangible assets		**7,893**
Reconciliation		
At 1 July 2014, net of accumulated amortisation	7,133	980
Additions	-	128
Amortisation at 30 June 2015	-	(348)
At 30 June 2015, net of accumulated amortisation	**7,133**	**760**
Total goodwill and other intangible assets		**7,893**

IMPAIRMENT TESTING OF GOODWILL AND NON-CURRENT ASSETS

The Group has identified the following Cash Generating Units (CGUs) for the purposes of assessing the carrying value of the Group's assets:

- Air Link Pty Limited (Air Link)
- Pel-Air Aviation Pty Limited (Pel-Air)
- Regional Express Holdings Limited (Rex)

Goodwill has been allocated for impairment testing purposes to the CGUs as follows:

	2016 $'000	2015 $'000
Air Link	518	518
Pel-Air	-	6,615
	518	**7,133**

The contract between Pel-Air and the Australian Defence Force ended and was not renewed. As a result of the non-renewal of this contract, the Group considered there to be an indicator of impairment in Pel-Air CGU and undertook a review of the recoverable amounts of Pel-Air CGU determined through a value in use calculation detailed at (A) below. As a result of the impairment testing performed, the Group assessed that the recoverable amount was less than the carrying value of the assets and accordingly an impairment charge of $6,615 thousand relating to the Goodwill previously held in Pel-Air has been recognised.

In addition to the above, certain aircraft assets which were used in the Australian Defence Force contract are idle. The recoverable amount of these aircraft has been measured using fair value less cost to sell and an impairment of $8,344 thousand has been recognised. Note (B) below provides more information.

(A) VALUE-IN-USE: REX AND PEL-AIR CGUS

The value in use calculations of Rex and Pel-Air use cash flow projections based on financial budgets approved by the Board covering a 5 year forecast period, and a terminal value based upon an extrapolation of cash flows beyond the 5 year period using a constant growth rate which does not exceed the long term inflation rate. The cash flows are based on management's expectations regarding the market, fleet plans including the purchase of aircraft and operating costs. The discount rate applied reflects the weighted average cost of capital based on the risk-free rate for ten year Australia government bonds adjusted for a risk premium to reflect the risk of each CGU.

(B) FAIR VALUE LESS COST TO SELL: AIRCRAFT ASSETS

Certain aircraft assets which were utilised in the Australian Defence Force contract are idle and as at balance date are not generating cash flows. Accordingly these have been recognised on a fair value less cost to sell basis. This has been determined based on historical sales price information for comparable aircraft, less historical aircraft brokerage commissions.

An impairment relating to the carrying value of these aircraft assets of $8,344 thousand has been recognised in profit and loss.

KEY ASSUMPTIONS

The following key assumptions were used in determining the value-in-use valuation models for the Rex and Pel-Air CGUs:

Key Assumptions	Rex CGU	Pel-Air CGU
(i) Discount rate	11.0%	10.5%
(ii) Revenue growth	1.5%	1.5%
(iii) Fuel cost escalation	1.0%	1.0%
(iv) Operating cost escalation	1.5%	1.5%

(i) Post-tax discount rate applied to the cash flow projections.
(ii) Revenue growth based on historical experience and market conditions, fleet plans and competitor behaviour.
(iii) The fuel cost escalation has been set with regard to the prevailing purchase price of fuel to the extent fuel costs cannot be recovered from customers.
(iv) Operating cost escalation has been estimated with regard to CPI adjustment for domestic costs and prevailing spot rate for overseas purchases.

SENSITIVITY ANALYSIS

The Group has performed a sensitivity analysis by considering reasonable changes in key assumptions, including discount rate, revenue growth, operating cost escalation, fuel cost escalation and capital expenditure.

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to a reduction of or additional impairment charge in the year ended 30 June 2016. Changes in one assumption could be accompanied by a change in another assumption, which may increase or decrease the recoverable amount of the CGU.

		Rex		Pel-Air	
	Increase/ Decrease by	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Post tax discount rate %	0.5%	(6,223)	6,902	(623)	640
Revenue %	0.5%	31,608	(31,179)	234	(234)
Operating cost escalation %	0.5%	(24,687)	24,352	(1,170)	1,155
Fuel cost escalation %	0.5%	(4,724)	4,640	(19)	19
Capital expenditure %	5.0%	(2,772)	2,772	(208)	208

10/ TRADE AND OTHER PAYABLES

	2016 $'000	2015 $'000
Current		
Trade payables	15,461	13,785
Other payables	10,451	9,342
Total	**25,912**	**23,127**

Trade payables are non-interest bearing and are normally settled on 7 to 30-day terms. Other payables are non-interest bearing and have an average term of 7 to 30 days.

11/ UNEARNED REVENUE

	2016 $'000	2015 $'000
Current		
Unearned passenger and charter revenue	19,283	17,718
Unearned training revenue	58	490
Total	**19,341**	**18,208**

12/ BORROWINGS

	Effective interest rate %	2016 $'000	2015 $'000
Current			
Loan facility	9.1%	2,935	2,676
Finance leases	4.3%	3,706	6,524
		6,641	**9,200**
Non-current			
Loan facility	9.1%	14,805	17,740
Finance leases	4.3%	8,833	8,489
		23,638	**26,229**

The loan facility was used by a subsidiary, VAA Pty Ltd, to fund a number of aircraft assets. The loan is repayable over 10 years from July 2011 to June 2021.

The finance leases were for purchase of Saab aircraft. The aircraft has been part of the operational fleet and was acquired at their lease end in March 2014. During the year, the Group refinanced and extended lease terms for the purchase of a number of aircraft. The refinanced leases expire in August 2019.

The liabilities are secured over the assets being funded, the carrying value of which exceeds the outstanding liabilities.

13/ PROVISIONS

	2016 $'000	2015 $'000
Current		
Employee benefits		
Profit share, pilot retention bonus	1,911	1,688
Annual leave and long service leave	3,502	3,730
	5,413	**5,418**
Non-current		
Employee benefits		
Long service leave	1,857	1,115
Total employee benefits provisions	**7,270**	**6,533**
Profit share, pilot retention bonus		
Balance at the beginning of the year	2,786	2,821
Arising during the year	1,160	1,433
Utilised	(1,603)	(1,468)
Pilot share gift transfer to equity	(432)	-
Balance at the end of the year	**1,911**	**2,786**
Annual leave and long service leave		
Balance at the beginning of the year	4,845	6,728
Arising during the year	7,586	5,526
Utilised	(7,072)	(7,409)
Balance at the end of the year	**5,359**	**4,845**

14/ ISSUED CAPITAL

	2016		2015	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at 1 July	110,155	72,024	110,155	72,024
Balance at 30 June	**110,155**	**72,024**	**110,155**	**72,024**

Share units held as reserved shares by subsidiary company was 1,308,911 (2015: 1,594,063).

15/ RESERVED SHARES AND OTHER RESERVES

Reserved share account represents on market purchase of shares by the Group which is eventually granted to executives and employees as part of their remuneration.

The share-based payments reserve arises on the grant of shares to executives and employees under the employee share gift plan. Amounts are transferred out of the reserve and into issued capital when the shares are issued. Rex has established the share gift plan for its executive directors and eligible employees since FY 06.

The board decided that this plan will be offered to EA groups that opt for the plan, and all non-EA employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee. This plan is not based on any performance measures as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

Eligible employees who accept an offer of shares under the share plan will be entitled to receive the equivalent of 2% of their base salary in shares each financial year. Such shares will be issued to eligible employees on the relevant award dates. Non eligible employees are given the opportunity to salary sacrifice amounts to acquire Rex shares, with allocation of shares equal to 2% of the their base salary.

	2016 $'000	2015 $'000
Cash flow hedge reserve		
Balance at 1 July	-	-
Revaluation of cash flow hedges, net of tax	678	-
Balance at 30 June	**678**	**-**
General reserve		
Balance at 1 July	1,590	1,590
Movement during the period	-	-
Balance at 30 June	**1,590**	**1,590**
Total other reserves	**2,268**	**1,590**

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.

16/ LOSS / EARNINGS PER SHARE

	2016 Cents per share	2015 Cents per share
Basic (loss) / earnings per share	(8.8)	6.2
Diluted (loss) / earnings per share	(8.8)	6.2

The (loss) / earnings used in the calculation of basic and diluted (loss) / earnings per share are as follows:

	2016 $'000	2015 $'000
Net (loss) / profit	(9,557)	6,672
(Loss) / earnings used in the calculation of basic (loss) / earnings per share	(9,557)	6,672
(Loss) / earnings used in the calculation of diluted (loss) / earnings per share	(9,557)	6,672

The weighted average number of ordinary shares used in the calculation of basic and diluted (loss) / earnings per share are as follows:

	2016 No. '000	2015 No. '000
Weighted average number of ordinary shares for the purpose of basic (loss) / earnings per share	108,447	108,457
Weighted average number of ordinary shares for the purpose of diluted (loss) / earnings per share	108,447	108,457

17/ DIVIDENDS

In respect of financial year ended 30 June 2016, the directors have recommended no dividends to be paid out given the continued difficult trading conditions.

Fully franked dividends paid in respect of the past financial years ended 30 June, were:

	2016 $'000	2015 $'000
Adjusted franking account balance	33,705	35,048
Franking credit / (debit) recognised that will arise from income tax payable / (receivable) as at the end of financial year	1,069	(96)

18/ COMMITMENTS FOR EXPENDITURE

(A) CAPITAL EXPENDITURE COMMITMENTS

	2016 $'000	2015 $'000
Not later than one year	7,053	-
Later than one year and not later than five years	-	6,200
	7,053	**6,200**

The construction of an office and catering facility next to the Group's head office on Baxter Road commenced during the year. The Group undertook to purchase a hangar in Wagga Wagga for $2.8 million. Both commitments will be completed in FY 17.

(B) FINANCE LEASE LIABILITIES

During the year, the Group purchased a number of aircraft under finance leases. The leases expire in August 2019. The Group takes ownership of the aircraft at the end of the lease terms. The Group's obligations under the finance leases are secured by the lessors' title to the leased aircraft.

During the year, the leases were refinanced where repayment frequency was converted from monthly to quarterly for principal and interest, and interest was converted from fixed to variable rate.

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

	Minimum lease payments		Present value of minimum lease payments	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Not later than one year	4,140	7,144	3,706	6,524
Later than one year and not later than five years	9,314	8,771	8,833	8,489
	13,454	15,915	12,539	15,013
Less future finance charges	(915)	(902)	-	-
Present value of minimum lease payments	**12,539**	**15,013**	**12,539**	**15,013**
Included in the consolidated financial statements as (Note 12)				
Current borrowings			3,706	6,524
Non-current borrowings			8,833	8,489
			12,539	**15,013**

19/ CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities nor contingent assets as at 30 June 2016 (2015: nil).

20/ SUBSIDIARIES

Name of entity	Country of incorporation	Ownership Interest 2016 %	Ownership Interest 2015 %
Parent entity			
Regional Express Holdings Limited	Australia		
Subsidiaries			
Regional Express Pty Limited	Australia	100	100
Rex Freight & Charter Pty Limited	Australia	100	100
Rex Investment Holdings Pty Limited	Australia	100	100
Air Link Pty Limited	Australia	100	100
Pel-Air Aviation Pty Limited	Australia	100	100
Australian Airline Pilot Academy Pty Limited	Australia	100	100
VAA Pty Ltd	Australia	100	100
AVIEX Pty Ltd	Australia	100	100

Regional Express Holdings Limited is the head entity within the tax-consolidated group. These subsidiary companies are members of the tax-consolidated group.

21/ ACQUISITION OF BUSINESS

No business was acquired during the year.

22/ NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2016 $'000	2015 $'000
Cash and bank balances	26,821	23,360

(B) RECONCILIATION OF (LOSS) / PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2016 $'000	2015 $'000
(Loss) / profit for the year	(9,557)	6,672
Depreciation and amortisation	16,136	15,875
Asset impairment	8,344	-
Goodwill impairment	6,615	-
Share-based payment	1,327	793
Unrealised foreign exchange (gain) / loss	(55)	67
(Gain) / loss on disposal of non-current assets	(95)	50
Interest received and receivable	(721)	(849)
Decrease in receivables	2,634	5,515
Increase in inventories	(2,794)	(798)
Increase in other financial assets	(1,105)	-
(Decrease) / increase in deferred tax	(1,814)	1,515
Increase / (decrease) in current tax payable	993	(333)
Increase in other financial liabilities	136	-
Increase / (decrease) in trade payables	6,969	(1,820)
Increase / (decrease) in provisions	737	(3,016)
Increase in other liabilities	678	-
Net cash flows from operating activities	**28,428**	**23,671**

(C) FINANCING FACILITIES

	2016		2015	
	Used $'000	Limit $'000	Used $'000	Limit $'000
Maximum facilities available and reviewed annually:				
Loan facility (fund aircraft purchases)	17,743	17,976	20,423	20,635
Leases (fund aircraft purchases)	12,556	13,000	15,081	19,733
Tape negotiations authority	2,500	2,900	200	2,900
Letter of credit	-	559	-	559
Set off	-	1,000	-	1,000
Guarantee	3,829	3,937	3,442	3,937
Credit card	52	620	45	620
	36,680	**39,992**	**39,191**	**49,384**

The facilities are secured by the Group's operating cash flows and properties located in Adelaide, New South Wales at Don Kendell Drive Forest Hill, and Robey Street Mascot.

23/ FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of debt as disclosed in Note 12 and attributable to equity holders of the parent comprising issued capital, reserves as disclosed in Notes 14, 15 respectively, and retained earnings.

Operating cash flows are used to acquire assets required for the Group's operations, tax, dividends, share buy-backs and repayment of maturing debt. The Group's policy is to borrow centrally only if required.

GEARING RATIO

The Group's Board reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Board will balance its overall capital structure through the payment of dividends, new share issue and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Following a successful tender, the Group was awarded the contract to provide fixed wing air ambulance aircraft to Ambulance Victoria. The Group took on a $30 million loan facility to acquire and equip 4 King Air B200C aircraft to fulfill the requirements of the contract. The Group drew down $26 million of the facility during FY 10, and $4 million during FY 11. At the end of FY 11, the loan was fully paid back and replaced by a $29 million loan facility which is fixed-interest bearing and repayable over 10 years from July 2012 to June 2021.

During FY 14, the Group finalised the purchase of 25 latest generation Saab 340B*plus* aircraft. These aircraft were originally operating in the Rex fleet under a lease. The acquisition was partly funded by operating cash flows with the rest from bank finance leases.

The net cash position at the end of the financial year was as follows:

	2016 $'000	2015 $'000
Debt [i]	30,279	35,429
Cash and cash equivalents	26,821	23,360
Net debt	**3,458**	**12,069**
Equity [ii]	**187,053**	**194,841**
Net debt to equity ratio	**1.8%**	**6.2%**

[i] Debt is defined as long- and short-term borrowings, as detailed in Note 12.

[ii] Equity includes all capital and reserves of the Group that are managed as capital.

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

	2016 $'000	2015 $'000
Financial assets		
Loans and receivables	15,470	18,111
Cash and bank balances	26,821	23,360
Derivative financial instruments	1,105	-
Available-for-sale financial assets	9	10
Financial liabilities		
Amortised cost	56,191	58,556
Derivative financial instruments	136	-

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to foreign exchange, fuel price, interest rate and liquidity risk. Management of these risks is governed by the Group's policy approved by the Board of Directors, which provides written principles on the management of financial risks. Compliance with policies and exposure limits is reviewed by the Audit and Corporate Governance Committee and the Board on an ongoing basis. The Group does not enter into trade or financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function, which co-ordinates the hedging of financial risks from time to time, is managed by the Group's Corporate Services Department and reports regularly to the Board and Audit and Corporate Governance Committee.

(D) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in USD, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed using forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the financial year is as follows:

Liabilities		Assets	
2016 $'000	2015 $'000	2016 $'000	2015 $'000
3,427	2,419	-	-

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to USD for the following main purchases, approximate amounts per annum are:

- USD 21 million for engineering purchases
- USD 14 million for engine care and maintenance
- USD 4 million for airline reservation systems usage
- USD 1 million for aircraft insurance policies
- USD 1 million for operating leases

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2016 $'000	2015 $'000
Profit or loss	470	320

The Group's sensitivity to foreign currency has remained constant.

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group may enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions up to twelve months and up to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

(E) FUEL PRICE RISK MANAGEMENT

The Group uses jet fuel swap contracts to hedge exposure to movements in the price of aviation fuel. Jet fuel swaps are taken out hedge exposures to a maximum of 12 months in accordance with the Group's risk management policies. The group uses fuel swaps linked to the Platts Singapore Kerosene benchmark to hedge exposures to jet fuel.

The following table sets out the timing of the notional amount and the hedged jet fuel price of the Group's fuel hedging instruments:

	Hedged price $ per	Notional amount L'000	Less than 1 year L'000	1 to 2 years L'000	2 to 5 years L'000
2016					
AUD fuel costs	0.5088	30,000	30,000	-	-

The following table details the sensitivity of the Group's financial assets and liabilities to a 20% increase and 20% decrease in the jet fuel price. A positive number indicates an increase in profit or loss and other equity where the jet fuel price weakens. For an increase in the jet fuel price there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative. This analysis assumes that all other variables remain constant and based on the designated hedge relationship at the reporting date.

		20% increase		20% decrease	
	Carrying amount $'000	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity L'000
2016					
Derivative asset – jet fuel swap	1,015	-	2,978	-	(2,978)
Derivative liability – jet fuel swap	(136)	-	73	-	(73)
	969	**-**	**3.051**	**-**	**(3,051)**

(F) INTEREST RATE RISK MANAGEMENT

The Group has very little exposure to interest rate risk as its borrowings detailed in Note 12 are at a fixed interest rate. As such the Group does not hedge its interest rate exposure. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(G) CREDIT RISK MANAGEMENT

The Group has limited exposure to credit risk as the majority of its revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies. The disputes to the credit card charges amount to less than $50,000 a year.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(H) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's operating activities generate positive annual cash flow. The Group tries to maintain a $10 million cash balance by the end of each financial year. As and when required, the Group uses financing facilities as detailed in Note 22.

LIQUIDITY AND INTEREST RISK TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The amounts disclosed are based on the contractual undiscounted principal and interest cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	1 month $'000	1-3 months $'000	3 months to a year $'000	1-5 years $'000	5+ years $'000
2016					
Non-interest bearing	25,912	-	-	-	-
Interest bearing	369	1,774	6,429	27,040	-
	26,281	**1,774**	**6,429**	**27,040**	**-**
2015					
Non-interest bearing	23,127	-	-	-	-
Interest bearing	964	1,929	8,679	26,501	4,431
	24,091	**1,929**	**8,679**	**26,501**	**4,431**

The interest-bearing liabilities have a weighted average effective interest rate of 9.1% per annum for the 10-year bank loan (FY 12 to FY 21), and 4.3% per annum for the bank finance leases maturing in August 2019

(I) FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed below, the Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at the amortised cost in the financial statements approximate their fair values.

(J) FAIR VALUE HEIRARCHY

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- There were no transfers between levels during the year.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Financial assets carried at fair value				
Derivative asset – jet fuel swap	-	1,105	-	1,105
Financial liabilities carried at fair value				
Derivative liability – jet fuel swap	-	(136)	-	(136)

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Fuel swap hedging contracts are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above. Future cash flows are estimated based on forward rates (from observable forward rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group does not have any Level 3 financial instruments.

24/ KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	2016 $	2015 $
Short-term benefits	1,795,312	1,539,549
Post-employment benefits	159,860	139,726
Other long-term benefits	27,326	22,750
Share-based payment	26,726	25,522
	2,009,224	**1,727,547**

25/ RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 20 to the consolidated financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(I) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel compensation are disclosed in Note 24 to the consolidated financial statements.

(II) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to key management personnel.

26/ REMUNERATION OF AUDITORS

	2016 $'000	2015 $'000
Audit and review of the consolidated financial statements	285,075	265,000
Other non-audit services - tax compliance, tax advice	73,617	68,560
	358,692	**333,560**

The auditor of the Group is Deloitte Touche Tohmatsu.

27/ EVENTS AFTER THE REPORTING PERIOD

The Regional Express Pilots Enterprise Agreement (EA) was voted in on 23 July 2016. On 18 August 2016, the last remaining EA, the Regional Express Engineers Agreement was voted in.

Rex has introduced its fully in-house designed Electronic Flight Bags (EFB) across its entire Saab 340 fleet in the Rex Group. The EFB allows the electronic capture of data on aircraft cycles, flight times, engine trend monitoring, aircraft flow management and pilot flight times. This will provide significant efficiencies in accurately collecting critical data for both Engineering and Flight Operations. Rex received CASA approval for the EFB on 15 July 2016. This is the first time in the world that an EFB has been approved for Saab 340 aircraft operations.

Upcoming development will see the EFB loaded with Pilot Airway documents, aircraft load control and performance data, flight planning and weather related applications and the full suite of company manuals which will significantly improve operational efficiencies as well as safety.

28/ SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the category of customer for each type of service.

The Group's reportable segments under AASB 8 are as follows:

- Regular public transport
- Charter

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the year:

	Revenue		Segment result	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Continuing operations				
Regular public transport	237,044	221,467	3,871	12,426
Charter	24,862	34,750	(5,784)	5,878
	261,906	**256,217**	**(1,913)**	**18,304**
Finance income			721	849
Other losses			(250)	(1,166)
Central administration costs and directors' salaries			(7,090)	(6,520)
Finance costs			(2,171)	(2,171)
(Loss) / profit before tax			(10,703)	9,296
Tax benefit / (expense)			1,146	(2,624)
Consolidated segment revenue and profit	**261,906**	**256,217**	**(9,557)**	**6,672**

The revenue reported above represents revenue generated from external customers. There were no intersegment sales.

Segment result represents the profit earned by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the year:

	Assets		Liabilities	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Continuing operations				
Regular public transport	208,558	205,064	50,573	45,232
Charter	63,309	75,867	34,241	40,858
Total assets / liabilities	**271,867**	**280,931**	**84,814**	**86,090**

Other segment information for the year is as follows:

	Depreciation and amortisation		Additions to non-current assets	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Continuing operations				
Regular public transport	10,557	10,063	19,664	13,553
Charter	5,579	5,812	435	487
	16,136	**15,875**	**20,099**	**14,040**

29/ PARENT ENTITY DISCLOSURES

	2016 $'000	2015 $'000
(A) FINANCIAL POSITION		
Assets		
Current assets	47,443	40,840
Non-current assets	165,230	162,561
Total assets	**212,673**	**203,401**
Liabilities		
Current liabilities	50,794	44,642
Non-current liabilities	2,314	591
Total liabilities	**53,108**	**45,233**
Equity		
Issued capital	72,024	72,024
Retained earnings	85,165	85,119
Share-based payments reserve	1,382	709
Cash flow hedge reserve	678	-
General reserve	316	316
Total equity	**159,565**	**158,168**
(B) FINANCIAL PERFORMANCE		
Profit for the year	46	191
Other comprehensive income	678	-
Total comprehensive income	**724**	**191**

(C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

During FY 11, the parent entity entered into a deed of cross guarantee in relation to the debts of Pel-Air Aviation Pty Ltd, Rex Freight and Charter Pty Ltd, Rex Investment Holdings Pty Ltd and Australian Airline Pilot Academy Pty Ltd.

By entering into the deed, the wholly owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Regional Express Holdings Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group' can be found in the consolidated statement of profit or loss and other comprehensive income and statement of financial position along with the note on Regional Express Holdings Limited as parent found in note 29 (A) and (B).

(D) CONTINGENT LIABILITIES OF THE PARENT ENTITY

As at 30 June 2016, no contingent liabilities or assets existed (2015: nil).

(E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY

During FY 15, the parent entity undertook to construct an office and catering facility next to the head office on Baxter Road. Construction commenced during the year, and would be completed in the next FY 17.

30/ SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements include the consolidated financial statements of the Group. For the purpose of preparing the consolidated statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 17 August 2016.

(B) BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(D) REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

RENDERING OF SERVICES

Revenue from providing air passenger, charter and freight services is recognised when the relevant flights are made.

DIVIDEND AND INTEREST INCOME

Dividend from investments is recognised when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from or financial assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(E) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(F) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(G) FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars ('$'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 23).

(H) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into jet fuel swap derivatives to hedge exposures to jet fuel prices. It is the Group's policy not to enter into or hold derivative financial instruments for speculative trading purposes. Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. Transaction costs attributable to the derivative are recognised in profit or loss when incurred.

HEDGE ACCOUNTING

The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). At the inception of the hedge, the Group documents the relationship between hedging instruments and hedged items, including the risk management objective and strategy for undertaking each hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedge transactions have been and will continue to be highly effective.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other gains and losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Any derivative financial instruments not designated into an effective hedge relationship are classified as a current asset or a current liability at fair value through profit and loss.

(I) EMPLOYEE BENEFITS

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(J) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

(i) has been acquired principally for the purpose of selling in the near future;

(ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in Note 23.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 23. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

IMPAIRMENT OF FINANCIAL ASSETS

When an available for sale asset is considered to be impaired, cumulative gains/losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer

recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(K) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

CLASSIFICATION OF DEBT OR EQUITY

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity Instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 23.

OTHER FINANCIAL LIABILITIES

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(L) GOODWILL

Goodwill acquired in a business combination is carried at cost established at date of the acquisition of the business less accumulated impairment losses if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

(M) GOVERNMENT GRANTS

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

(N) IMPAIRMENT OF OTHER TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(O) TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated [statement of profit or loss and other comprehensive income/statement of profit or loss] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(P) INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite lives that are acquired separately are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis. Intangible assets with indefinite lives that are acquired separately are carried at cost less accumulated impairment losses.

A summary of the policies applied to the Group's finite intangible assets is as follows:

Intangible asset	Computer software
Amortisation method used	4 years straight line
Impairment test / recoverable amount testing	where an indicator of impairment exists

(Q) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs of inventories are determined on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(R) LEASING

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

GROUP AS LESSOR

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

GROUP AS LESSEE

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to Note 30E. Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(S) PROPERTY, PLANT AND EQUIPMENT

Land and buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised.

The rates applied are as follows:

Aircraft	15,000 to 60,000 hours
Building	20 to 30 years
Computer Equipment	4 to 5 years
Engines	10 to 20 years
Furniture & Fittings	8 to 10 years
Leasehold Improvements	over the unexpired lease period
Motor Vehicles	7 years
Plant & Equipment	8 years
Rotable Assets	5 to 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising in the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(T) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(U) SHARE-BASED PAYMENTS

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of the equity-settled share-based transactions are set out in Note 15.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest with and corresponding to increase in equity.

Equity-settled share-based payment transactions with other parties other than employees are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is measured, with any changes in fair value recognised in profit or loss for the year.

(V) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 30 to the consolidated financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

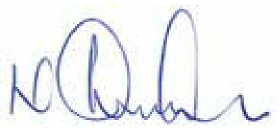
(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 29 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors



Neville Howell
Chief Operating Officer
Sydney, 24 August 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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Independent Auditor's Report to the Members of Regional Express Holdings Limited

Report on the Financial Report

We have audited the accompanying financial report of Regional Express Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss, consolidated statement of other comprehensive income or loss, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 38 to 77.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 30, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Regional Express Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Regional Express Holdings Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 30.

Report on the Remuneration Report

We have audited the Remuneration Report included in Section 19 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Regional Express Holdings Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. J. Gatt
Partner
Chartered Accountants
Sydney, 24 August 2016

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ASX ADDITIONAL INFORMATION AS AT 22 SEPTEMBER 2016

This is required by the ASX, but falls outside of the audit opinion and therefore has no impact on the audit report issued.

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

110,154,375 fully paid ordinary shares are held by 2,184 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

	Fully Paid Ordinary Shares		
	Investors	Securities	Issued Capital (%)
1 to 1,000	707	387,818	0.35
1,001 to 5,000	1,044	2,836,560	2.58
5,001 to 10,000	184	1,466,557	1.33
10,001 to 100,000	193	5,961,991	5.41
100,001 and Over	56	99,501,449	90.33
Total	**2,184**	**110,154,375**	**100.00**
Unmarketable Parcels	429	139,685	0.13

SUBSTANTIAL SHAREHOLDERS

	Fully Paid	
Ordinary Shareholders	Number	Percentage
MR KIM HAI LIM	18,998,346	17.25
MR JOE TIAU TJOA	16,234,094	14.74
THIAN SOO LEE	7,722,181	7.01
MING YEW SEE TOH & HUI ING TJOA	7,454,362	6.77
JOO CHYE CHUA	7,454,362	6.77
MS HUI LING TJOA	5,755,513	5.22

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

	Fully Paid	
Ordinary Shareholders	Number	Percentage
MR KIM HAI LIM	18,998,346	17.25
MR JOE TIAU TJOA	16,234,094	14.74
THIAN SOO LEE	7,722,181	7.01
MING YEW SEE TOH & HUI ING TJOA	7,454,362	6.77
JOO CHYE CHUA	7,454,362	6.77
MS HUI LING TJOA	5,755,513	5.22
REX INVESTMENT HOLDINGS PTY LIMITED	4,383,562	3.98
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,932,158	3.57
LAY KHIM NG	3,727,181	3.38
ANACACIA PTY LTD	2,928,055	2.66
STRATEGIC VALUE PTY LTD	2,314,573	2.10
CITICORP NOMINEES PTY LIMITED	2,070,258	1.88
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,564,308	1.42
PACIFIC CUSTODIANS PTY LIMITED	1,320,463	1.20
MR MICHAEL KARL KORBER	1,320,000	1.20
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,007,281	0.91
MASTAR PTY LIMITED	830,000	0.75
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	815,981	0.74
MR THIAN SONG TJOA	800,000	0.73
ROPER CRESCENT INVESTMENTS PTY LTD	697,774	0.63
BRAZIL FARMING PTY LTD	626,922	0.57

Photo by Daniel Delgado

REX GROUP OF COMPANIES